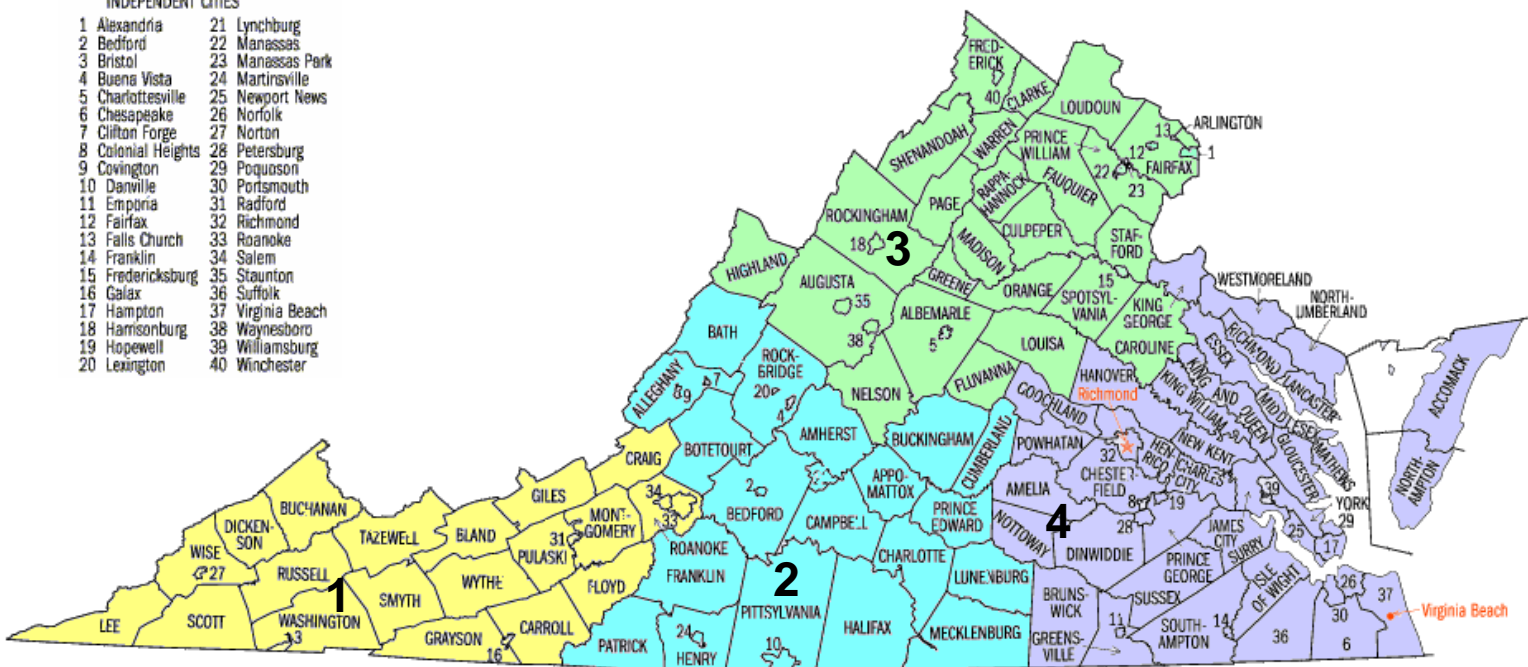


GRH Lender Origination and Underwriting Guide

INDEPENDENT CITIES

- | | |
|--------------------|-------------------|
| 1 Alexandria | 21 Lynchburg |
| 2 Bedford | 22 Manassas |
| 3 Bristol | 23 Manassas Park |
| 4 Buena Vista | 24 Martinsville |
| 5 Charlottesville | 25 Newport News |
| 6 Chesapeake | 26 Norfolk |
| 7 Clifton Forge | 27 Norton |
| 8 Colonial Heights | 28 Petersburg |
| 9 Covington | 29 Poquoson |
| 10 Danville | 30 Portsmouth |
| 11 Emporia | 31 Radford |
| 12 Fairfax | 32 Richmond |
| 13 Falls Church | 33 Roanoke |
| 14 Franklin | 34 Salem |
| 15 Fredericksburg | 35 Staunton |
| 16 Galax | 36 Suffolk |
| 17 Hampton | 37 Virginia Beach |
| 18 Harrisonburg | 38 Waynesboro |
| 19 Hopewell | 39 Williamsburg |
| 20 Lexington | 40 Winchester |



- Area 1
- Area 2
- Area 3
- Area 4

VIRGINIA

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Advantages & Benefits of GRH Financing

- No down payment required: True 100% product
- No monthly mortgage insurance: Clients can afford more!
- No reserve requirements
- No minimum credit score
- No Maximum Loan Amount: Clients have NO purchase price limitations
- 30 year fixed rate
- **NOT limited** to first- time home buyers
- 102% of LTV (100% plus one time 2% guarantee fee)
- No limitation on source of closing costs: 100% gifted closing cost or down payment assistance is allowed. Charity, or similar housing assistance from community based organizations may be used. Soft second mortgages are allowed for closing costs even if the total debt exceeds the appraised value of the property
- No limit on seller concessions to pay for closing costs and/or repairs. Check guidelines of your secondary market for their concession limits.
- Include closing costs/repairs in loan if appraisal is higher than sales contract
- Any lender may participate with formal Rural Development approval. Lenders may participate as originators without formal approval (approximately 350 Nationally Approved Lenders are eligible to purchase GRH loans)
- *Prompt review of Guarantee Files: 24 - 48 hour turnaround time*
- Lenders may charge normal and customary fees for their services
- Lenders may use their standard forms (only one RD form truly needed)
- **EXPAND YOUR MORTGAGE CUSTOMER BASE!**
- High earnings potential: GRH Loans are accepted in any Ginnie Mae I or II pool. They can be sold as a single loan or as part of a pool to Fannie & Freddie
- RD's Guarantee provides better loss protection than private mortgage insurance (PMI)! **MAXIMUM BENEFITS TO THE LENDER & CLIENT WITH LESS COST!**



COMPLETE RURAL DEVELOPMENT INSTRUCTION 1980-D is available online:

www.rurdev.usda.gov/

Under "Regulations", Click on "Instructions"

Reasonable Costs and Fees

- Lenders/Brokers may charge normal and customary fees for their services as long as their fees do not exceed the charges or fees routinely made by the lender/broker for similar transactions such as Fannie, Freddie, FHA or VA.
- Other conforming high LTV home mortgage products (excluding sub-prime) can also be used for comparison. This documentation is not routinely requested as part of the loan application process unless the fees observed on the Good Faith Estimate appear to be unusually high for that market.
- The 2% Guarantee Fee should not be included when making the comparison.
- Discount points may only be charged in cases where the interest rate is being bought down below the current Fannie Mae rate.
- Discount points can only be financed with loan funds for low income applicants.
(1980.309)(d)

(SEE AN 4407) for details on Lender Charges and Fees)

ELIGIBILITY REQUIREMENTS

Applicant must:

- BE a U.S. CITIZEN, a U.S. NON-CITIZEN NATIONAL, OR HAVE QUALIFIED ALIEN STATUS (SEE AN 4402 – Non-Citizen Documentation)
- Purchase a residential property that is located in a Rural Development eligible area

Please use the following Website for **Property Eligibility**:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

On the far left side of website go under **property eligibility** and click on “Single Family Housing”. Click accept for disclaimer and then you can ***either use the exact address box on left*** and enter property address ***or select a State*** from the Map of USA to the right, click on state and then click on county to show map of eligible area (you can click on the icons at the left to manipulate the map, *yellow areas are eligible and orange areas are ineligible.*

NOTE: If you get a response of unable to determine property eligibility or have questions regarding an eligible site please call the RD office in VA that serves that county for assistance.

- **NOT HAVE SUFFICIENT RESOURCES TO PROVIDE AND SECURE CONVENTIONAL CREDIT (ON TERMS AND CONDITIONS THAT THE APPLICANT COULD REASONABLY BE EXPECTED TO FULFILL) WITHOUT A RURAL DEVELOPMENT GUARANTEE**

- **NOT EXCEED THE MODERATE INCOME LIMITS BASED ON THE HOUSEHOLD'S ADJUSTED ANNUAL INCOME**

Income of all adults who will be residing in the household must be calculated to determine GRH program eligibility.

Please use the following website for adjusted household income calculation
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

On the far left side of website go under **income eligibility** and click on "Single Family Housing", pick a state, then pick a county and fill in the boxes.

Income sources such as seasonal type work of less than 12 months duration, commissions, overtime, bonuses, and unemployment compensation must be computed as the estimated annual amount of such income for the upcoming 12 months. Consideration should be given to whether the income is dependable based on verification by the employer & the applicant's history of such income over the previous 24 months. If you have questions concerning what income to count and/or the deductions available please see RD Instruction 1980-D, 1980.346 and 1980.348 pages 39-44 for detailed information. <http://www.rurdev.usda.gov/regs/regs/pdf/1980d.pdf>

Common adjustments to the gross income include: verified childcare for children 12 and under; \$480 annual deduction for each child under age 18, age 18 or older and handicapped, or full-time student, and who are not the applicant, spouse, or co-applicant; \$400 annual deduction for an elderly family (see definition in RD Instruction 1980-D). Other deductions are described in RD Instruction 1980-D, 1980.348 pages 43-44.

NOTE: Childcare expense should not be considered in the debt ratios.

Adjusted household income limits for all states are posted at:
<http://www.rurdev.usda.gov/rhs/sfh/sfh%20guaranteed%20loan%20income%20limits.htm>
(Just click on the state in the list on the site)

- **NOT OWN A DWELLING IN THE LOCAL COMMUTING AREA
or OWNS A DWELLING WHICH IS NOT STRUCTURALLY
SOUND &/or FUNCTIONALLY ADEQUATE**

The GRH program considers a **property ineligible** that has the potential to be viewed as **investment property**.

However, there are some circumstances where retaining the existing home (outside of local commuting area) as rental property may be acceptable:

Generally, borrowers must sell the old (existing) property, meaning at a minimum they have a sales contract with a verified closing imminent.

If the old (existing) property has not sold after being listed in a timely manner (6 to 8mo's) and will be rented, the following applies:

1. Any present remaining mortgage payment minus rent collected must be counted in the ratios. There must be a standard lease agreement signed by the renter for a period of not less than 12 months.
2. A projected net cash profit must be included in the total household income to determine Adjusted Household Income.
3. A projected net cash loss cannot be deducted in determining Adjusted Household Income.
4. A projected net cash profit with no history should not be used for repayment calculations due to lack of history to establish dependability. A projected net cash loss should be deducted from repayment income as a sound underwriting practice.
5. **Follow AN 4411** which will clarify how to treat residential rental income when underwriting loans for the GRH program when there is a newly signed lease for a property that a borrower will not be selling when purchasing a new principal residence.

- **NOT HAVE SUFFICIENT RESOURCES TO PROVIDE AND
SECURE CONVENTIONAL CREDIT WITHOUT A RURAL
DEVELOPMENT GUARANTEE**

- **HAVE ADEQUATE AND DEPENDABLE QUALIFYING (REPAYMENT) INCOME**

Repayment income is a separate calculation from the adjusted annual income which is used to determine if the client's income is eligible for the GRH program. Qualifying **(repayment)** income is typically less than adjusted annual income.

Dependable Qualifying Repayment Income: The main concerns are job stability and income reliability when considering **repayment income** which is used in calculating the front and back ratios.

The lender must determine whether there is a historical basis to conclude that the income is likely to continue, **typically income of less than 24 months duration should not be included in qualifying (repayment) income.**

Self-employed applicants with a new business should have a 24 month operating history and accurate financial statements for review. **A loss may not be used to offset other income in order to meet RD eligibility income guidelines. Negative income is counted as zero income.**

Applicants who move from another geographic area but remain in the same line of work can normally obtain a loan without a waiting period.

Applicants who change to a different line of work normally need at least six months on the job to establish credible work history and consistently have been employed for the last 24 months.

For applicants having a history of net loss in a particular enterprise, the average net loss should be deducted from projected repayment income (this is not the case when figuring adjusted annual household income)

For other income that may be considered in determining repayment ability see 1980.347(e) at the following link. <http://www.rurdev.usda.gov/regs/regs/pdf/1980d.pdf>

Qualifying (Repayment) Income vs. Adjusted Income

Qualifying (repayment) income includes:

- All income that is considered to be stable and dependable.
- **Income of the person(s) signing the promissory note.**

*Lender Note: If you have two people who will reside in the home, but only one of them is on your loan application **you will calculate the “adjusted” annual income using BOTH incomes, but you will only use the gross income of the client on your application for qualifying (repayment) income.***

- Income that is anticipated to last for at least 12 months.
- Income may be based on projected income when determining base earnings. However, **most underwriters use historical information from the previous 24 months** to determine projected income from overtime, profit sharing, bonus, tips, commissions, part time work, seasonal employment, unemployment compensation, and self-employment.
- **Historical income that is higher than the projected income** (based on current wages and YTD earnings) **must be explained and documented regarding the anticipated decrease in earnings.**
- Non-taxable income such as child support or SSI may be **grossed up 25%**
Please remember that some SSI can be taxable and it is the lender’s responsibility to document and show only that part of the SSI that is non-taxable and being grossed up.
- **Pending pay increases** supported with written documentation that are scheduled to occur in the near future **based on the VOE will be considered in calculating adjusted annual household income for eligibility purposes**, or they may be viewed as a compensating factor if a ratio waiver is needed.
- **No co-signers permitted**

Income Documentation

LENDER'S MUST SUBMIT:

1. A written "Request for Verification of Employment" (on lender form or the equivalent HUD/FHA/VA or Fannie Mae form) **AND**
2. Most recent paycheck stub with YTD figures
(for a **quick turn around RD** prefers that you use this method of employment documentation)

OR

1. Most recent 30 day period of paycheck stubs or payroll earnings
2. W-2's for the previous 2 tax years
3. Telephone verification of employment

NON-Applicant(s) may submit most recent pay stub with YTD figure as acceptable adjusted household income verification

AND

Please supply portions of divorce decrees pertaining to property settlements, child support, and alimony to support the file.

Self-Employed Income Documentation

Rural Development encourages the use of:

- * Fannie Mae Form 1084: "Cash Flow Analysis" and
- * Fannie Mae Form 1088: "Comparative Income Analysis" to document a trend analysis for the client's business.

The lender may use the Fannie Mae forms or any documentation that provides the same information.

How to calculate business income:

Net Profit + Depletion (item #12 on Schedule C) + Depreciation (item #13 on Schedule C or item #16 on Schedule F) = Repayment Income

Note: A loss may not be used to offset other income in order to meet RD eligibility income guidelines. **Negative income is counted as zero income.**

See AN 4367 for details in determining repayment income for self-employed applicants.

Repayment Ratios/Waivers

1. 29% Housing Ratio (PITI) and 41% Total Debt Ratio (TDR). **Flexibility allowed!**
2. There is not a maximum amount the ratios may be exceeded. Depending on the strength of the compensating factors, housing ratios in the mid to high 30's and total debt ratios in the mid to high 40's are not uncommon. Underwriters may request a waiver, however as a rule, waivers will not be approved when the credit score is less than 620 or there is not traditional history of credit.

RATIO WAIVERS MUST BE REQUESTED TO RD IN WRITING AND COMPENSATING FACTORS MUST BE IDENTIFIED.

3. Non-taxable income such as child support and SSI may be grossed up 25%
4. All debts with MORE THAN 6 MONTHLY INSTALLMENTS REMAINING SHOULD BE CONSIDERED IN THE TDR. (**deferred student loans should be included in the debt ratio calculations for Guaranteed Loans regardless of the deferment period.**) Other debts should be counted if they are recurring or otherwise have an impact on repayment ability.
5. Underwriters may request an exception to the 29/41 guidelines by properly documenting their compensating factors on the 1008 Underwriting Transmittal Summary.
Rural Development must grant the ratio waiver—it is not automatic.
6. Non-borrowing adult household member's income cannot be used as a compensating factor for a ratio waiver request.

NOTE: No additional risk layering (such as adverse credit waivers, **debt ratio waivers**, or buydowns) **should be allowed without strong documented compensating factors** when payment shock of 100% or more exists.

Common Compensating Factors

Include The Applicant(s) Having:

1. Rent for the past 12 months similar to the new PITI and/or history of accumulated savings that when added to the former rent, shows capacity to repay the new PITI.
2. There is only a minimal increase in the borrower's housing expense.
3. A credit score of 660 or higher. The credit score used is the middle of three or the lower of two.
4. The co-applicant has a credit score of 660 or higher.
5. Demonstrated a conservative attitude toward the use of credit and ability to accumulate savings.
6. Stable employment for the past two years, demonstrating dependable income.
7. The applicant has potential for increased earnings, as indicated by job training or education in the applicant's profession.
8. Substantial cash reserves after all closing costs are paid.
9. Compensation or income not reflected in repayment income but indirectly supports the ability to pay the mortgage, food stamps and other similar public benefits.
10. Substantial non-taxable income not previously accounted for in the ratios.
11. The home is being purchased as the result of relocation of the primary wage-earner and the secondary wage-earner has an established history of employment, is expected to return to work, and there are reasonable prospects for securing employment in a similar occupation in the new area. The underwriter must address the availability of such possible employment.
12. The TD ratio does not have to include co-signed or ex-spouse debts, and the primary borrower of those debts has demonstrated good repayment history for 12 months and it appears that the GRH applicant will not need to make payments on this debt.
13. A low TD ratio. **The low TD ratio, by itself, does not compensate for a high front or PITI ratio.** However, when other strong compensating conditions are present, a low TD ratio should be viewed as a positive mitigating factor.

HAVE ACCEPTABLE CREDIT HISTORY THAT MEETS RURAL DEVELOPMENT REQUIREMENTS

Credit History Verification

Credit reports that meet the standards of Fannie Mae, Freddie Mac, HUD and VA are generally acceptable for the GRH program. These include but are not limited to:

1. Residential Mortgage Credit Report (RMCR).
2. Tri-Merge Credit Report.
3. When there is insufficient traditional credit history, lenders may obtain a Non-Traditional Credit Report (NTCR) or complete their own verification of nontraditional credit sources. NO HISTORY / NO CREDIT SCORE is not acceptable. A history of credit adequate for the underwriter to make a reasonable determination of credit worthiness must be made available.

READ AN 4345

for new guidelines and specific standards on

NONTRADITIONAL CREDIT HISTORY VERIFICATION

A minimum of three (3) Non-Traditional Sources of Credit with a 12 month payment history must be documented. These may include but are not limited to the following:

1. Rental payments or utility payment records.
2. Insurance payments (excluding those paid by payroll deduction) including medical, automobile, life, household, or renter's insurance.
3. Payments to child care providers.
4. Payments made to retail stores proven by canceled checks , money order receipts, or written verification from a third party. In addition, tuition for schools expenses, or to medical providers for uninsured portions of medical bills are acceptable documentation.

When using Non-traditional credit sources

- additional risk layers are not acceptable,
- payments to relatives do not qualify,
- all written verifications must detail payment history as 0x30, 0x60, etc. Subjective statements such as "Satisfactory" or "Acceptable" are not allowed.

UTILIZING CREDIT SCORES FOR UNDERWRITING SFH GUARANTEED LOANS

READ AN 4346

Which FICO do I use? **Three** scores = middle. **Two** scores = lowest. **One** score = that score.

Applicants & co-applicants with Credit scores of 620 & above:

May take advantage of streamlined documentation listed below, **unless the applicant or co-applicant has a delinquent federal debt or previous Agency loan.**

- A lender shall not be required to document adverse credit history waivers under RD Instruction 1980-D, section 1980.345(d)(1)
- A lender shall not be required to document applicant rent payment history

VA Homebuyer Education Requirements for First Time Homeowners:

Applicants with a credit score below 660 and co-applicants with a credit score below 620 who are first time homeowners must take a homeownership course.

NOTE: Both applicants must take a homebuyer education class if either applicant/co-applicant does not meet the criteria above. In all cases where homebuyer education is required; a copy of the certificate must be retained in the lender origination file.

Acceptable Credit History per RD Instruction 1980-D, 1980.345 (d) include:

1. No more than 1 payment greater than 30 days past due in the past 12 months.
2. No account converted to collection in the past 12 months.
3. No judgment outstanding in the past 12 months.
4. No debt write-off, foreclosure, or bankruptcy discharged within the past 36 months.
5. No more than 1 rent payment greater than 30 days past due in the past 12 months.
6. No outstanding collections without satisfactory arrangement for payment, regardless of age.
7. No outstanding tax lien or delinquent government debt, including student loans with no satisfactory arrangement for payment.

Adverse Credit Waivers

Credit scores below 620:

Adverse Credit Waivers are always required when the credit score is less than 620 and the applicant does not meet the “acceptable credit history” as stated above. The lender must provide strong compensating factors when granting an adverse credit waiver.

Lenders should judiciously evaluate and carefully screen the credit histories of applicants with FICO scores of 619 and below for manually underwritten guaranteed loan files.

Adverse Credit Waivers are normally not approved when the applicant’s credit score is below 620 and there is Risk Layering present. However, exceptions can be made *IF* the underwriter can provide strong supporting documentation substantiating the adverse credit waiver. The lender may use the FNMA 1008 to document & list applicable compensating factors.

NOTE: Underwriters always need to document when a credit waiver is granted regardless of the credit score.

The preferred method of documentation would be on the 1008. Otherwise, they will need to submit a copy of the credit waiver approval form.

Risk Layering and Credit Waivers

Please pay careful attention to underwriting requirements of **619 and below** AND **580 and below**! (See AN 4346)

Applicants with scores of 619 and below have a high likelihood of loan default.

Underwriters should be especially cautious of layered risks in addition to the lower credit score which include but are not limited to the following:

- Adverse credit history waivers,
- Ratio waivers,
- Payment shock,
- 2-1 Buy Down
- Questionable repayment income or job stability.

The loan must indicate “minimal” layers of risk and strong compensating factors.

More than one additional layer of risk is NOT permitted.

If the underwriter deems the adverse credit acceptable then the underwriter should document their decision on the Uniform Underwriting Transmittal Summary (1008) in the “Underwriter Comments” section.

Underwriters may consider “mitigating circumstances” to establish the borrower’s intent for good credit when **documentation can be secured evidencing all 3 circumstances listed below.**

The circumstances surrounding the adverse credit

- 1. WERE TEMPORARY IN NATURE**
- 2. WERE BEYOND THE APPLICANT’S CONTROL**
- 3. HAVE BEEN REMOVED SO THEIR REOCCURENCE IS UNLIKELY.**

OR the adverse action/delinquency was the result of a justifiable dispute because of defective goods or services.

Applicants with FICO scores of 580 and below should not be approved by lenders if they exhibit any of the indicators of unacceptable credit per RD Instructions 1980-D, Section 1980.345(d) which include:

- One or more debt payments being 30 days late within the last 12 months
- Foreclosure discharged less than 36 months
- Outstanding tax liens or delinquent government debts with no payment arrangements currently due.
- Outstanding judgments within the last 12 months
- Two or more rent payments 30 days late within the last 3 years
- Accounts converted to collections within the last 12 months
- Outstanding collection accounts with no payment arrangements that are currently due
- Bankruptcy discharged less than 36 months.

Payment Shock

Payment shock compares the proposed loan payment to the applicant's current housing expense and is expressed as a percentage.

Payment Shock is a Risk Layer whenever it equals or exceeds 100% OR when there is no past rental history or previous housing experience in the past 12 months.

Underwriters must document the Payment Shock percentage on Form 1008 or an equivalent underwriting worksheet.

Payment Shock is calculated as follows:

New PITI: \$ _____ divided by former rent: \$ _____] - 1 X 100 = _____ %

(Example calculation)

Current rent: \$500

New proposed PITI: \$1,300

\$1,300 divided by current rent \$500 minus 1 = 1.60 or 160% payment shock

No additional risk layering (such as adverse credit waivers, debt ratio waivers, or buydowns) **should be allowed without strong documented compensating factors.**

Collection Accounts

It is a common underwriting practice for many conventional lenders to require the payment of unpaid collection accounts or charge off accounts prior to loan closing. If this practice is consistent with your investor's (Fannie Mae, FHLMC, and GNMA) underwriting guidelines, you should apply it to GRH loans as well.

GRH applications with representative scores over 620 for each applicant qualify for streamlined credit documentation, which would not require the payment of collection accounts prior to closing unless the lender's underwriter requires it.

Rural Development does require that all judgments, garnishments or other delinquent credit that has the potential to affect the GRH loan's first lien position be paid prior to closing.

The lender's underwriter is responsible for determining what collection accounts, if any, must be paid. If the lender determines that collection accounts may remain unpaid, the lender must document their reasons for approving the mortgage.

Regulations require that the lender document that the circumstances causing the collection have been removed and were beyond the control of the applicant. Requiring the payoff of such collection(s) as a loan condition would only place additional financial stress on an applicant who likely has little or no cash reserve. Collections with a repayment agreement will be accounted for in the repayment ratios.

Underwriters must determine that the applicants have an *acceptable* credit history and **document any mitigating circumstances on their underwriting transmittal whenever they are not requiring the payment of all collection accounts.**

(See AN 4366)

Note: It is unacceptable to allow a seller to pay off a borrower's collections.

2/1 Buydown Requests

A buydown request must be approved by Rural Development.

Please read AN 4404 (temporary interest rate buydowns)

A funded buydown account is designed to improve the applicant's repayment ability. Lenders should be cognizant of educating client(s) how to prepare to meet the expected increases in loan payment.

The mortgage loan must be underwritten at the note rate

A ratio waiver with compensating factors are required for any buydown request where the third year ratios will not be 29/41.

NOTE: If you have a buydown and are also requesting a ratio waiver because the first year rate shows ratios over 29/41 then no other risk layering is allowed with a FICO score less than 620. Therefore, no credit waivers would be acceptable.

Rural Development does not have a required form for a buydown request; however you will need to provide Rural Development with the lender's form for a buydown request.

Lenders must show the applicant's income will increase or debts will decrease at the end of the second year to offset the increased payments.

The maximum reduction which may be considered is 2% below the note rate. Reductions in buydown assistance may not result in an increase in the interest rate paid by the borrower of more than 1% per year. Buydown periods must be at least 12 months for each 1% of the buydown.

Buydown must be Third Party funded. The seller, Lender or other third party must place funds in an escrow account with monthly releases scheduled directly to the Lender to reduce the borrower's monthly payment during the early years of the loan.

No additional risk layering should be allowed in cases where payment shock is 100% or cases where the applicant did not have prior housing expense.

(See AN 4404)

RURAL DEVELOPMENT UNDERWRITING MATRIX for credit scores above 580

CREDIT SCORE	DEBT RATIO WAIVER <i>Approved By Rural Development</i>	CREDIT WAIVER <i>Documented by Lender's Underwriter</i>	PAYMENT SHOCK <i>A definite risk factor!</i>
660 or Higher	<ul style="list-style-type: none"> Ratio waiver is not automatic Score alone may be compensating factor Additional compensating factors will allow more flexibility in higher ratio waivers 	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is sufficient. 	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is sufficient.
620 to 659	<ul style="list-style-type: none"> Ratio waiver is not automatic Score is considered neutral and is not a compensating factor Need other compensating factors to support ratio waiver 	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is sufficient. 	<ul style="list-style-type: none"> Payment shock is acceptable as long as there is no additional risk layering. If there is additional risk layering, underwriter should provide compensating factors to support loan approval
580 to 619	<ul style="list-style-type: none"> Ratio waiver is not automatic Credit score indicates a risk layer Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p>AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset a ratio waiver <p><i>Underwriter should show extreme caution in approving this loan</i></p>	<ul style="list-style-type: none"> Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p>AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset a credit waiver <p><i>Underwriter should show extreme caution in approving this loan</i></p>	<ul style="list-style-type: none"> Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p>AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset payment shock <p><i>Underwriter should show extreme caution in approving this loan</i></p>

1. All borrowers must be deemed credit-worthy. Co-applicant's credit history is never ignored completely. Special caution should be taken if any applicant's score is under 620.

2 Documentation to support a ratio waiver, credit waiver or payment shock does not need to be provided but should be available from the lender upon request. The underwriter's comments on the waiver should be on the 1008 transmittal summary or similar documentation.

3. Sample compensating factors include but are not limited to the following: Good credit scores, conservative attitude towards credit, accumulated savings, good job history, low total debt, low payment shock, etc.

4. Payment shock is when the current housing costs in comparison to the proposed housing costs will increase 100% or more. If the borrower has no prior housing cost, payment shock is automatically a risk factor.

SUMMARY OF APPLICANT ELIGIBILITY REQUIREMENTS:

To be eligible for a Guaranteed loan, the applicant(s) must:

1. Be a U.S. citizen, a U.S. non-citizen national, or have qualified alien status.
2. Possess legal capacity to incur the loan and be of legal age. Applicants must be at least 18 years of age to incur debt. A legal guardian may act on behalf of an applicant not having legal capacity (other than a minor), if all other requirements are met and the property can be maintained.
3. Not own adequate housing in the local commuting area.
4. Be able to occupy the home as the primary residence on a permanent basis. Special documentation will be required for full-time students because of their high probability of moving after graduation.
5. Be unable to obtain conventional financing, such as a loan with a 20% down payment. This means having insufficient assets to make a 20% down payment, pay all closing costs, and pay for all out of pocket expenses associated with the purchase, such as moving expenses, utility deposits, window coverings, appliances, lawn maintenance equipment, etc. and leave some reserve. A loan requiring mortgage insurance is not considered “conventional” by this paragraph. Applicants are not required to have a turn-down letter for a conventional loan as the lender certifies this on Form 1980-21, Request for Guarantee.
6. Have an Adjusted Annual Household Income that is at or below the Moderate Income Limit for the county where the home is to be purchased. See the **Income Eligibility Website** <http://eligibility.sc.egov.usda.gov/eligibility/> to link to income guidelines.
7. Have income that is considered adequate and dependable for loan repayment. Adequate repayment ability is expressed as having a PITI ratio of equal to or less than 29.00%, and a Total Debt (TD) ratio equal to or less than 41.00%. Waivers to these ratio requirements can be granted by RD on a case by case basis, with documentation by the lender.
8. Have acceptable credit history per RD Instruction 1980-D, 1980.345(d) requirements. An Adverse Credit Waiver may be granted by the lender with adequate compensating factors on a case by case basis. Applicants with credit scores 620 or above (middle of three or lower of two) can be processed with streamlined documentation.
9. No delinquent federal debts, unless a satisfactory repayment plan has been agreed upon with the creditor and there is documentation the payments have been made as agreed.

Before issuing a Conditional Commitment for Loan Guarantee, RD staff will verify:

- The lender has provided **reliable** income documentation. (See AN 4363)
- PITI and TD ratios have been calculated correctly.
- The lender has complied with creditworthiness guidelines, and that any Adverse Credit Waiver Request is based on relevant verified data.

2% GUARANTEE FEE IS A DEAL!



- Roll fee in above appraised value: No out of pocket needed
- Cheaper than PMI
- Best insurance coverage for the lender (90%)
- Least cost to client

The GRH Fee is **TAX DEDUCTABLE** as a mortgage insurance premium.

Calculating the GRH Fee

Purchase Price: \$120,000 Appraised Value: \$122,000 (AV)

Determine the Maximum Loan Amount:

$\$122,000 \text{ (AV)} / .98 = \$124,489.80$ Maximum Loan Amount.

If we purchase a home for \$120,000 and we want to roll in closing costs of \$2,000 (not including the GRH fee of 2%), we have a total loan amount of \$122,000.

To determine the loan amount including the 2% fee: $\$122,000 / .98 = \$124,489.79$

\$2,489.79 (2% Guarantee Fee). We are under the maximum loan amount!

DO YOUR MAXIMUM LOAN CALCULATION TO DETERMINE WHAT CLOSING COSTS MAY BE ROLLED IN!

It may be easier to work backwards:

Appraised Value: \$125,000

Purchase Price: - \$123,500

Closing Costs: \$1,500 (do not include the 2% GRH fee here)

$\$123,500 + \$1,500 \text{ closing costs} = \$125,000 \text{ loan amount} / .98 = \$127,551.02$

\$127,551.02 is the *total loan amount* the lender will request Form RD 1980-21

“Request for SFH Loan Guarantee from Rural Development.” This figure includes the 2% fee.

Change In Loan Amount or Interest Rate

If the Form RD 1980-18 "Conditional Commitment" for SFH Loan Guarantees has been issued, **no increases to the loan amount or interest rate are permitted** without the lender submitting the following revised forms stated below and Rural Development's written concurrence by issuing a new 1980-18.

- The lender must submit a revised Form 1003, an update Form 1008 signed by the underwriter, and Form 1980-21.
- If the new repayment ratios exceed the 29/41 guidelines, the lender must request a ratio waiver as described in the "Repayment Ratios" section.
- A revised Conditional Commitment will have to be issued to reflect the **increased** loan amount and /or interest rate if Rural Development concurs with the increases.
Please look at "the attachment" to the CC for RD's conditions
- *Lenders need to understand a change in the amount of the Loan and/or interest rate is very time consuming to RD and will take up to an additional 48 hours to submit through the RD system.*

*Do **NOT** close the loan until both your underwriter's and Rural Development's conditions have been satisfied.*

Lenders must ***NOT*** close a loan at an interest rate or dollar amount higher than indicated on the Conditional Commitment without RD's Approval!!

NOTE: Decreases in the loan amount or interest rate DOES NOT require Rural Development's concurrence but will cause additional time to submit through the RD system.

Interest Rate

- The maximum interest rate charged on GRH loans may not be more than the current Fannie Mae rate (which is the Fannie Mae A/A 90 day delivery), plus 60 basis points and rounded up to the next one-quarter percent OR the lender's published/advertised rate for VA first mortgage loans with no discount points, whichever is higher.
- Most investors provide a daily rate schedule.

GRH loan applications may be submitted to Rural Development with floating or locked interest rates. Conditional Commitments issued by Rural Development on applications with floating rates will always be at the lesser of the lender's proposed rate or the current Fannie Mae rate. The interest rate, when locked by the applicant and lender must be at an eligible rate of interest as defined above.

If a lender locks an eligible interest rate that is higher than the rate shown on their Conditional Commitment, a revised Conditional Commitment must be obtained from RD approving the higher rate. (Please follow directions on PREVIOUS PAGE)

- The Fannie Mae web site may be reached via www.rurdev.usda.gov/va/grh.htm on the left side, scroll down to Fannie Mae Pricing" and click on that link.

***Maximum Allowable Interest Rate ***

The Agency and approved participating lenders must adhere to RD Instruction 1980-D, section 1980.320 when calculating the maximum interest rate allowed for Single Family Housing Guaranteed Loan Program (SFHGLP) loans.

Currently, RD Instruction 1980-D, section 1980.320 provides two options for selecting the interest rate. Lenders may select the higher of the two options to establish the *maximum* allowable rate. Only interest rates at or below this maximum threshold may be locked.

1. Current Fannie Mae rate as defined in section 1980.302(a) of RD Instruction 1980-D
2. Lender's published VA rate for first mortgage loans with no discount points

The preferred interest rate cap most widely used is the Fannie Mae ninety day delivery rate plus sixty basis points rounded up to the nearest quarter of one percent. See RD Instruction 1980-D, section 1980.302(a) and Instruction 440.1, Exhibit B, footnote number nine. Fannie Mae historical rates may be found on the internet at: <https://www.efanniemae.com/sf/refmaterials/hrny/>

VA does not publish a daily interest rate; therefore lenders should refer to published rates offered by their institutions. The correct VA rate to select is the "par" rate with no discount points. If using the VA rate, lenders should document it with their rate sheet on the date the rate was locked.

In all cases, lenders are responsible for documenting the date the interest rate is locked. The lock date is the date on which lenders and borrowers agree to a specific interest rate. The *date the rate is locked* will be utilized to calculate the maximum allowable interest rate.

Loan Note Guarantees will not be issued for loans closed outside of the acceptable interest rate thresholds.

Eligible Rural Areas

- Property must be in an eligible rural area or community. Generally, these are communities of fewer than 10,000 persons except that certain communities between 10,000 and 20,000 population are considered rural based on their distance from urban areas.
- To access eligible areas LOG ON: <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- Left side under “Hot Items” click on “Income/Property Eligibility”.
- Under Property Eligibility, click on “Single Family”.
- Click “Accept”.
- If you have an address including zip code, enter it and then click on “Get Map”. Your address will be mapped to its exact location along with a determination of eligibility.
- If you do not have an address, click on “Virginia” on the U.S. map.
- Click on the county in which you are interested.
- Light yellow areas are eligible, and dark orange areas are ineligible.

If you have problems accessing the website or have questions regarding an eligible site please call your Local Office for assistance.

PARTIALLY ELIGIBLE AREAS

The following is a list of Cities, Towns, Counties, & Community Designated Places (COP) which are partially eligible for Rural Development/Rural Housing Service Single Family or Multiple Family Housing Assistance:

Albermarle
Chesterfield
Frederick
Hanover
Henrico

James City
Loudoun
Prince George
Prince William
Rockingham

Spotsylvania
Stafford
York

INELIGIBLE AREAS

The following is a list of Cities, Towns, Counties, & Community Designated Places (CDP) which are **NOT** eligible for Rural Development/Rural Housing Service Single Family or Multiple Family Housing Assistance:

Alexandria City
Arlington County
Blacksburg Town
Bristol City
Charlottesville City
Chesapeake City
Colonial Heights City
Danville City
Fairfax City

Fairfax County
Falls Church City
Fredericksburg City
Hampton City
Harrisonburg City
Hopewell City
Leesburg Town
Lynchburg City
Manassas City

Manassas Park City
Mechanicsville CDP
Newport News City
Norfolk City
Petersburg City
Poquoson City
Portsmouth City
Richmond City
Roanoke City

Salem City
Staunton City
Suffolk City
Virginia Beach City
Vinton Town
Williamsburg City
Winchester City

INCOME LIMITS FOR VIRGINIA

COUNTY/MSA/FMR AREA	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
Blacksburg MSA	49,600	56,700	63,750	70,850	76,500	82,200	87,850	93,500
Charlottesville MSA	55,150	63,050	70,900	78,800	85,100	91,400	97,700	104,000
Culpeper CO	53,400	61,000	68,650	76,250	82,350	88,450	94,550	100,650
Frederick CO - Winchester MSA	49,550	56,600	63,700	70,750	76,400	82,050	87,750	93,400
King George CO	57,800	66,100	74,350	82,600	89,200	95,800	102,400	109,050
Kingsport-Bristol	49,550	56,600	63,700	70,750	76,400	82,050	87,750	93,400
Lynchburg MSA	49,550	56,600	63,700	70,750	76,400	82,050	87,750	93,400
Northumberland CO	51,050	58,300	65,600	72,900	78,750	84,550	90,400	96,250
Orange CO	50,350	57,500	64,700	71,900	77,650	83,400	89,150	94,900
Rappahannock CO	54,200	61,900	69,650	77,400	83,600	89,800	96,000	102,150
Richmond MSA	55,800	63,750	71,750	79,700	86,100	92,450	98,850	105,200
Roanoke MSA	49,550	56,600	63,700	70,750	76,400	82,050	87,750	93,400
VA Beach-Norfolk-Newport News MSA	52,450	59,900	67,400	74,900	80,900	86,900	92,900	98,850
Warren CO	52,550	60,100	67,600	75,100	81,100	87,100	93,100	99,150
Washington- MSA Arlington-Alexandria	61,900	70,700	79,550	88,400	95,450	102,550	109,600	116,700
All Other Counties	49,550	56,600	63,700	70,750	76,400	82,050	87,750	93,400

Check the following web link for updates:

http://www.rurdev.usda.gov/rhs/sfh/DSFH_Income_Limits/VA%20Direct.pdf

Eligible Properties & Loan Purposes

- Existing (over 1 year old)
 - New Construction or Purchase New Dwellings (less than 1 year old)
 - Condos/Townhouses
 - NEW Manufactured Homes
 - Existing or New Modular Homes
1. Condos/Townhouses must be eligible for Fannie Mae, Freddie Mac, FHA, or VA financing. A First Right of Refusal in Condo documents and bylaws is ACCEPTABLE, as long as there is no discrimination involved in selling the property (i.e. the property is listed on the MLS, therefore anyone may submit an offer).
 2. New Construction:
End Loans and Permanent Financing Only.
Must provide copy of construction contract/sales agreement.
See AN 4414 on requirements related to New Construction and Homes in Planned Unit Developments
 3. What may be financed for new construction?
Some examples are site loans, bridge loans, interim financing through construction process, 2% Guarantee fee, closing costs.
 4. Property repairs and improvements on existing homes:
CAN be financed up to the “As-Improved” value of the property.
 5. Repair Escrows:
If major repairs are noted during an appraisal and cannot realistically be completed prior to closing then the lender may **escrow 150% times** the bid amount for materials and labor for these repairs.

Repairs and improvements must be completed before the final Loan Note Guarantee is issued.

EXAMPLE:

Purchase Price: \$112,000
As-Improved value: \$125,000
New roof and new front door: \$7,000 150% = \$10,500
Closing costs to roll in: \$2,500
Total Loan = \$125,000 + Guarantee fee 2% = \$127,551.02
BORROWER BRINGS NO MONEY TO THE TABLE!

All of the buyers closing costs, including pre-paid expenses may be financed up to 100% of the appraised value. No cash outs allowed.
You may add the 2% into the loan regardless of appraised value! (Just like in the above example.)

Existing Homes

- o Rural Development wishes to ensure that homes which are accepted into the GRH Program are decent, safe, and sanitary; and free of major defects.
- o Existing dwellings must meet the requirements of HUD handbooks 4150.2 and 4905.1
- o Existing homes – FHA roster appraisers **are preferred** since they are certified to state that the property meets the requirements of HUD Handbooks 4905.1 and 4150.2. The GRH program requires that all existing homes/property meet the requirements of HUD handbooks 4905.1 & 4150.2
- o FHA roster appraisers can be identified at the following site:
<https://entp.hud.gov/idapp/html/apprlook.cfm>
- o If a FHA roster appraiser is not used then a separate independent home inspection report must be prepared by a certified home inspector. The dwelling must be in acceptable condition with adequate and functional heating, electrical, plumbing, waste disposal and water systems. The home must be structurally sound, have at least 2 years of life left on the roof and be free of termite or other wood destroying organisms.

NO MORE THERMAL REQUIREMENTS For Existing Homes

See AN4364 for additional details on existing property inspections and appraisals

Shared Well and Septic Systems

Rural Development will need an executed and recorded easement (that is already in place) for any shared well or septic system.

When a shared system is in place, it would need to be permitted as such by the health department, the sharing needs to be in the deed, which would also allow the homeowner to maintain the system or make improvements, ***should it not be on their lot.***

For any shared system that is not on the subject property the lender should provide Rural Development with an executed and recorded easement as part of the complete GRH package.

Rural Development defers to the HUD handbooks which defers to the local health authorities regarding design and permits of individual sewer systems.

The number of bedrooms that the house is permitted for must be the same number (or less) of bedrooms that the appraisal states the subject property has..... the appraised value needs to be correctly determined based on the number of bedrooms permitted.

Rural Development has to review the existing septic permit issued by the Health Dept. for the septic system being referenced.

The FHA roster appraiser must certify by stating on the appraisal the property meets the guidelines of HUD handbooks 4905.1 & 4150.2. Therefore, Rural Development would need to see a copy of the appraisal to see how the appraiser documented for A SHARED WELL OR SEPTIC SYSTEM.

New Home Financing & Construction

- o Rural Development can only guarantee construction-permanent loans.
- o The Loan Note Guarantee is not issued until the home has been completed and the closing package (including 2% guarantee fee) has been received by Rural Development.
- o Lenders may submit a complete GRH loan package for a Conditional Commitment on a home that is currently under construction.

Documentation Required for New Construction

The following documents must be retained in the Lender's file:

1. Building Permit
2. County Inspections
3. Occupancy Permit
4. Builder's Warranty
5. National Pest Management Association forms – (Form NPCA-99A and Form NPCA-99B)

See AN 4414 with regards to New Construction and regulatory requirements dealing with lender loan file documentation requirements on newly constructed homes and Homes in Planned Unit Developments.

Condos

Participating Lenders may certify to Rural Development that they have reviewed the condominium documentation and that the condominium is in compliance with HUD, VA, Fannie Mae or Freddie Mac guidelines.

Aside from the Lender's certificate to Rural Development, all condominium documentation should remain in the Lender's file and should be available upon request. The documentation must be provided if no certification is submitted.

See AN 4303 for all details on SFHGLP Condominium Requirements.

NEW Manufactured Homes

- Existing manufactured (HUD code) homes are NOT permitted unless already financed by Rural Development (GRH or Direct 502 loan).
- Underwriters (and appraisers) must determine whether the unit is a “manufactured” or a “modular” home. There are no restrictions on a modular home, even though they are built off site. Modular homes meet all the same Uniform Dwelling code (UDC) requirements as “stick built” homes.
- Manufactured units must meet HUD 3 U/O Value Zone to meet the necessary thermal requirements. The Comfort Heating Certification must be permanently affixed near the main electrical panel or other readily accessible and visible location.
See AN 4417 for Thermal Requirements for Manufactured Housing
- The Lender must certify that the unit has an affixed certification label indicating that it was constructed in accordance with the Federal Manufactured Home Construction and Safety Standards (FMHCSS).
- Existing homes that have the characteristics of a manufactured home must be underwritten carefully to verify that the home (or any part of the structure) is not a manufactured (HUD code) home.

Some appraiser comments or characteristics to watch for include:

- | | |
|---|--|
| 1. Mobile/manufactured home appearance | 6. Feature board walls |
| 2. Presence of FMHCSS tag on the dwelling | 7. Metal structural components |
| 3. Floor plan | 8. Evidence of ownership is a title |
| 4. Slab or pier foundation | 9. Furnace and water heater is located on the main floor |
| 5. Presence of skirting | |
- New manufactured homes must be purchased, installed and warranted from an agency approved Dealer—Contractor.
 - A list of Dealer - Contractors approved for Virginia is on our website: www.rurdev.usda.gov/va/grh.htm . Dealers not listed on our approved list should contact any RD Office for the application and requirements for becoming an approved Dealer - Contractor.
 - Dealer - Contractors must use a single construction contract to include the purchase of the home, installation of the home on a permanent foundation, and any other site development work.
 - No “do it yourself” work by the applicant is allowed.
 - The Dealer—Contractor must provide a 12 month warranty on all work completed under the construction contract, including the work completed by their sub-contractors.
 - *The set up requirements for Rural Development are different than those of FHA/HUD. The manufactured home must be financed as real estate along with the site.*
1. The home must be permanently installed on the site with all running gear and towing equipment removed.
 2. All foundation types must have a frost protected footings or perimeter.
 3. Acceptable types of foundations for manufactured homes include anchor ties to footings, full basements, crawl spaces, and concrete slabs. All foundation footings or perimeters must be frost protected and enclosed with a permanent building material such as concrete, cement blocks, or treated wood.

Site and Building Requirements

Refer to the National Regulation RD Instruction 1980-D, paragraphs 1980.312 - 1980.314 for more information.

- Maps are available on the GRH Homepage website to view the county maps showing the areas eligible for GRH financing in Virginia. The website address is:
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- No in-ground swimming pools are permitted. Any value attributed to above ground pools will be deducted from the appraised value since they are viewed as personal property.
- Dwellings financed should be of a residential nature and not closely associated with farm service buildings or commercial/industrial property. *(Underwriters typically expect reasonable zoning compliance. A good rule of thumb is that homes lacking residential zoning should be bordered on three sides by residential types of property.)*
- Income producing structures or farm land cannot be financed. Hobby farms and farmettes are not eligible for financing since they generally include income producing land and/or structures.
- Non-income producing sites can be financed as long as the contributory value of the site is less than 30% of the total value. The 30% limitation may be exceeded if the site cannot be further subdivided, and the value of the site is typical for the area.

Property must be contiguous to and have direct access from a street, public road, or driveway. Streets and roads must be hard surfaced or an all weather surface. Shared driveways are permitted as long as the access to the property is transferable with the title to the property and meet the requirements of HUD Handbook 4905.1.

Properties may be located on private roads only if there is a road maintenance agreement in effect and executed by all property owners. The private road access must meet the requirements of HUD Handbook 4905.1.

FLOOD ZONES

Lenders must submit FEMA Form 81-93, Standard Flood Hazard Determination, with each GRH Loan application. Lenders typically obtain a life of the loan Certification from the provider of the determination.

EXISTING HOMES

Flood Insurance is required anytime an existing property is located in Zone A (100Year Flood Zone).

RD must perform an Environmental assessment **that will require additional information making it impossible to issue the conditional commitment in a 48 hour time period. When an existing property is in a flood ZONE A please allow a minimum of 5 additional days.**

RD will not guarantee new construction in flood zones.

Quick RD Appraisal Guide

The URAR: FNMA Form 1004/ FHLMC Form 70. The revised form **must include a cost approach** and 3 comparable sales when the subject property is less than one year old. Properties over one year old may include the cost approach if the appraiser deems necessary. Site value and site improvement costs must be shown on RD appraisals regardless of age. The new revision excludes information on manufactured homes and condominiums on this form.

The Manufactured Home Appraisal

The URAR: FNMA Form 1004/ FHLMC Form 70. The revised form **must include a cost approach** and 3 comparable sales when the subject property is less than one year old. Properties over one year old may include the cost approach if the appraiser deems necessary. Site value and site improvement costs must be shown on RD appraisals regardless of age. The new revision excludes information on manufactured homes and condominiums on this form.

The Manufactured Home Appraisal Report FNMA Form 1004C/ FHLMC Form 70B has been combined into one appraisal report for use only on NEW manufactured homes. Rural Development guarantees only NEW manufactured homes built by an approved dealer-contractor.

The Individual Condominium Unit Appraisal Report FNMA Form 1073/ FHLMC Form 465 has been revised; this property type is no longer indicated on the URAR. The revised form excludes exterior inspections. Appraisals with interior inspections for condominiums should be completed on this form.

The Appraisal Update and/or Completion Report FNMA Form 1004D/ FHLMC Form 442 has been revised. It now includes sections for property information, the summary appraisal update, the certification of completion, and signatures. This form should also include photographs when applicable.

The following appraisal forms are NOT accepted by Rural Development for loan originations:

- The Exterior-Only Inspection Individual Condominium Unit Appraisal Report (New FNMA Form 1075/ FHLMC Form 466)
- The Exterior-Only Inspection Residential Appraisal Report (New FNMA Form 2055/ FHLMC Form 2055)
- The Desktop Underwriter Quantitative Analysis Appraisal Report (Old FNMA Form 2055)
- Loan Prospector Quantitative Analysis Report (Old FHLMC Form 2055)

Appraisal Information:

- **Less than 6 months old**
- **“As Is” or “As Improved”**
- **FHA roster Appraiser preferred...must certify that property meets requirements of HUD Handbooks 4905.1 and 4150.2**
- **Reviewed by Rural Development**
- **No Thermal Requirements required**

NOTE: Generally, the value of the **site must not exceed 30 percent** of the total value of the property. When the value of the site is typical for the area, as evidenced by the appraisal, and the site cannot be subdivided into two or more sites, the 30 percent limitation may be exceeded.

Refinancing

Limited to refinancing existing Rural Development Guaranteed and Direct Loans only.

- Loan Term must be 30 years
- Fixed interest rate at or below the current rate for refinancing current GRH loans.
- A 0.50% guarantee fee must be paid to Rural Development
- Adjusted income limits and repayment ratios are the same as for an initial GRH loan.
- No insulation certification; No flood certification; No property inspections required!
- CANNOT refinance debts other than existing Rural Development GRH loan, or the Direct 502 Loan
- Can add or delete borrowers
- Property must be owner occupied
- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the .50% guarantee fee. Reasonable and customary closing costs, including funds necessary to establish the new escrow for taxes and insurance may be included
- The LTV can be up to 100.5% (based on the appraised value) for refinances if the 0.50% guarantee fee is included in the loan.
- Appraisals less than one year old may be used for GRH refinance
- Transactions if the lender obtains a re-certification of value from the original appraiser. The LTV cannot exceed 100.5% of the property's original appraised value.
- A new appraisal is NOT required when refinancing only the unpaid principal on an existing GRH loan with the .50% guarantee fee. However, a new appraisal is required when refinancing a Direct 502 Loan or if interest and closing costs (including pre-paid expenses), are included in the new GRH loan.
- No cash back (except for fees and costs paid out of pocket by the borrower, such as credit check and/or appraisal). The applicants may receive any escrow refund from the old loan.
- The property may be in an ineligible (non-rural) area because of eligible area delineation changes by RD since the original loan was made.

See AN 4335 for Refinancing of Section 502 Direct Loans.

See AN 4336 for Refinancing of Existing GRH Loans.

Reservation of Funds (now optional but still preferred in VA for a quick turn around)

The originating lender or broker may submit a "Reservation of Funds" form RD 1980-86, once they have a complete application on file that clearly shows the applicant has sufficient qualifying income and an adequate credit history. **Substitutions of borrowers or dwellings are not authorized.** This process assures all parties that the GRH funding is available prior to processing and underwriting the file. The availability of funds is generally good throughout the year. During the months of September or October, Conditional Commitments may be issued subject to the approval of new fiscal year budget or continuing resolution for the Federal Government.

Fax **Form RD 1980-86**, Reservation of Funds, to the Rural Development office serving the county where the property is located.

Rural Development will fax a "Confirmation of Funds" to the originator usually within the same day. The GRH funds remain in a "reserved" status, pending the receipt of a complete file from the lender's underwriter. All "Confirmation of Funds" will expire in 60 days or on September 30th each year, whichever comes first.

See below sample: Form RD 1980-86 "Request for Reservation of Funds"

Form RD 1980-86 (Rev 12-05)	FORM APPROVED OMB NO. 0575-0078																									
UNITED STATES DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM (SFHGLP)																										
REQUEST FOR RESERVATION OF FUNDS																										
LENDER INFORMATION:																										
<table border="1" style="width: 100%;"><tr><td colspan="2">Submitting Lender Name: _____</td><td colspan="2">Tax I.D. No. _____</td></tr><tr><td colspan="4">Address: _____</td></tr><tr><td colspan="4">Lender Contact Person: _____</td></tr><tr><td colspan="2">Contact Phone No. (_____) _____</td><td colspan="2">Ext. _____ Fax No. (_____) _____</td></tr><tr><td colspan="4"><i>Rural Development Approved Lender</i> (Complete when Submitting Lender (listed above) is not an Rural Development Approved Lender):</td></tr><tr><td colspan="2">Name: _____</td><td colspan="2">Tax I.D. No. _____</td></tr></table>			Submitting Lender Name: _____		Tax I.D. No. _____		Address: _____				Lender Contact Person: _____				Contact Phone No. (_____) _____		Ext. _____ Fax No. (_____) _____		<i>Rural Development Approved Lender</i> (Complete when Submitting Lender (listed above) is not an Rural Development Approved Lender):				Name: _____		Tax I.D. No. _____	
Submitting Lender Name: _____		Tax I.D. No. _____																								
Address: _____																										
Lender Contact Person: _____																										
Contact Phone No. (_____) _____		Ext. _____ Fax No. (_____) _____																								
<i>Rural Development Approved Lender</i> (Complete when Submitting Lender (listed above) is not an Rural Development Approved Lender):																										
Name: _____		Tax I.D. No. _____																								
APPLICANT/PROPERTY INFORMATION:																										
Reservation Amount Requested: \$ _____ <input type="checkbox"/> Applicant and Co-Applicant are both First Time Homebuyers																										
Is this a Refinance Loan? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, loan being refinanced is a Rural Development Single Family Housing <input type="checkbox"/> Guaranteed Loan OR <input type="checkbox"/> Direct Loan																										
Number People in Household: _____		Number of Dependents Under Age 18 or Full-time Student: _____																								
Applicant Information (Please complete, circle, or mark as appropriate)		Co-Applicant Information (Please complete, circle, or mark as appropriate)																								
Name: _____		Name: _____																								
SSN: _____ Date of Birth: _____		SSN: _____ Date of Birth: _____																								
US Citizen: <input type="checkbox"/> Yes <input type="checkbox"/> No		US Citizen: <input type="checkbox"/> Yes <input type="checkbox"/> No																								
Permanent Resident/Qualified Alien: <input type="checkbox"/> Yes <input type="checkbox"/> No		Permanent Resident/Qualified Alien: <input type="checkbox"/> Yes <input type="checkbox"/> No																								
Veteran: <input type="checkbox"/> Yes <input type="checkbox"/> No Disabled: <input type="checkbox"/> Yes <input type="checkbox"/> No		Veteran: <input type="checkbox"/> Yes <input type="checkbox"/> No Disabled: <input type="checkbox"/> Yes <input type="checkbox"/> No																								
Gender: <input type="checkbox"/> M <input type="checkbox"/> F		Gender: <input type="checkbox"/> M <input type="checkbox"/> F																								
Ethnicity: (Check only One Box) <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino		Ethnicity: (Check only One Box) <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino																								
(Check as many boxes as applicable) Race: <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Asian <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White		(Check as many boxes as applicable) Race: <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Asian <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White																								
Marital Status: <input type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Unmarried		Marital Status: <input type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Unmarried																								
Property Address: _____																										
City, State, Zip Code: _____		County: _____																								
We are processing an application from the above named person(s), and expect to have a complete package to you within 60 days. Please reserve funds for this loan. We have reviewed the applicant's income and credit history and have tentatively determined the applicant(s) has sufficient qualifying income and credit history to proceed with this application.																										
_____ (Authorized Lender Representative/Official)		Date: _____																								

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Guaranteed Underwriting System (GUS)

GUS is an automated system to help the lender process Rural Development Guaranteed loan applications. For no fee to the Agency, authorized lenders may use the system to submit an application for an eligibility determination, pre-qualification or final submission to Rural Development. It is a rule based decision engine along with a modified version of the FHA TOTAL scorecard. Combined, the functionalities of GUS indicate a recommended level of underwriting and documentation to determine a loan's eligibility for the Single Family Housing Guaranteed Loan Program (SFHGLP).

First phase implementation functionality includes:

- **Income and property eligibility determinations;**
 - **Automated application submission to the Agency;**
 - **Automated credit-decision;**
 - **Automated population of relevant data from credit reports;**
 - **Preliminary underwriting prior to submission to the Agency; and**
 - **Detailed Findings Report with an underwriting recommendation and analysis.**
- GUS delivers an “Accept” or “Refer” or “Refer with Caution” recommendation based on risk documentation requirements for conditional commitment, closing and loan guarantee are outlined for the lender and Agency.**

What was once a two step process and request, has now been combined into one “credit/underwriting” page. Credit and preliminary underwriting may be requested simultaneously. Requesting an Agency commitment is accomplished from this page through a final submission. Final submissions are not restricted to “Accept” recommendations. Lenders should also final submit their “Refer” and “Refer with Caution” recommendations upon manual underwriting completion.

GUS continues to impress and there are many more enhancements and features coming soon. The system is under development and new functionality will continue to be developed and added to the features of the system. Future releases of GUS will build on the core system and include among other enhancements:

- Capability to import and export loan data from a Loan Origination System (LOS)
- Ability to reserve guaranteed funds electronically through GUS

[AN 4330 Elaborates On GUS](#)

How Can Lenders Access GUS?

Gus is a web-based system designed with many users in mind. Approved SFHGLP lenders will register and complete a User Agreement to become an authorized user of GUS. User Agreements may be obtained from the Agency and are required documentation prior to access to the system. An authorized official of the lender's organization must sign and complete the User Agreement. Only one agreement, per taxing identification number is required per lender.

Additionally access to the system by authorized user will be processed through a self-registration process by creating an e-Authentication account.

Sign Up for FREE GUS updates at: www.rdlist.sc.egov.usda.gov/listserv/mainervlet

Gus Lender Training Online

- Log On:
- <https://usdalinc.sc.egov.usda.gov/>
- [Click on](#) "RHS LINC Home"
- Under "Single Family Guaranteed Rural Housing" [click on](#) "Training and Resource Library"
- Scroll down to "Guaranteed Underwriting System (GUS)", [Click on](#) "GUS Lender Overview Training"

Statistics of GUS Underwriting based on 1039 Loans Entered into GUS

Recommendations

<u>Accept / %</u>	<u>Refer / %</u>	<u>Refer with Caution / %</u>
363 Loans = 34.9%	577 Loans = 55.5%	73 Loans=7.0%

Submitting the Loan

Rural Development should only receive complete files underwritten by a participating lender.

Lenders should not submit one package to RD and one to their underwriter simultaneously.

Lenders are allowed to submit their Guaranteed Loan packages via email to Rural Development for a conditional commitment. **Please confirm receipt of email package by RD employee.**

Forms

- Form RD 1980-86 REQUEST FOR RESERVATION OF FUNDS
- Form RD 1980-21 REQUEST FOR SINGLE FAMILY HOUSING LOAN GUARANTEE

Official Agency forms can be downloaded from the following website:

<http://www.rurdev.usda.gov/regs/formstoc.html>

"Request for Loan Commitment Checklist" can be found on the next page.

LOAN COMMITMENT CHECKLIST 502 GRH PROGRAM

Date: _____

Applicant name(s): _____

Lender loan number: _____

In order to process your request in a timely manner, please stack the documents in the following order.

- ☐ Form RD 1980-86, "Request for Reservation of Funds" (optional)
- ☐ Form RD 1980-21, "Request for Single Family Housing Loan Guarantee"
- ☐ Income verification
- ☐ Credit history verification
- ☐ Purchase agreement
- ☐ Existing properties-conventional appraisal (URAR dated 03/05) completed by a FHA roster appraiser
- ☐ New construction, provide conventional appraisal
- ☐ Uniform Residential Loan Application*
- ☐ FEMA Form 81-93, "Standard Flood Hazard Determination"
- ☐ Lender's Loan Underwriting Analysis (all pages)
 - ☐ Attached Comments and requirements of underwriter
 - ☐ Attached compensating factors as required by RD Instructions or AN's

It is acceptable to submit copies of the fully executed forms when submitting your request for loan commitment.

*For applications taken via the telephone or internet, an unsigned copy of the URLA is acceptable at the time of requesting a Conditional Commitment. A final, signed copy must be provided in order to receive a Loan Note Guarantee.

RHS forms, property eligibility information, Administrative Notices, and Regulation 1980D are available at: www.sc.egov.usda.gov

Revised June 1, 2007

Loan Approval

RD will send conditional commitment with attachment. Commitment is good for 90 days with one 90 day extension.

See below sample: Form RD 1980-18 and attachment (on next page)

USDA-RD
Form RD 1980-18
(Rev. 12-97)

FORM APPROVED
OMB NO. 0575-0078

CONDITIONAL COMMITMENT FOR SINGLE FAMILY HOUSING LOAN GUARANTEE

TO: Lender's Name and Address	Case No.
	State
	County
Borrower	Principal Amount of Loan \$

From an examination of information supplied by the Lender on the above proposed loan, and other relevant information deemed necessary, it appears that the transaction can properly be completed. Therefore, the United States of America acting through the Rural Housing Service (RHS), or its successor (herein referred to as Agency) hereby agrees that, in accordance with applicable provisions of the Agency regulations published in the Federal Register and related forms, it will execute Form RD1980-17, "Loan Note Guarantee," subject to the conditions and requirements specified in said regulations and below.

The Loan Note Guarantee fee payable by the Lender to Agency is \$ _____.

The interest rate for the loan is _____ %.

A Loan Note Guarantee will not be issued until the Lender certifies as required in 7 CFR 1980.360 that there has been no adverse change(s) in the Borrower's financial condition, nor any other adverse change in the Borrower's condition during the period of time from Agency's issuance of this conditional commitment to issuance of the Loan Note Guarantee. The Lender's certification must address all adverse changes and be supported by financial statements of the Borrower and its guarantors not more than 60 days old at the time of certification.

This conditional commitment becomes null and void unless the conditions are accepted by the Lender and Borrower within 60 days from date of issuance by the Agency. Any negotiations concerning these conditions must be completed by that time. Except as set out below, the purposes for which the loan funds will be used and the amounts to be used for such purposes are set out on Form RD 1980-21, "Request for Single Family Housing Loan Guarantee." Once this instrument is executed and returned to the Agency, no major change of conditions or approved loan purpose as listed on these forms will be considered.

Additional Conditions and Requirements including source and use of funds:²

This conditional commitment will expire on _____³ unless the time is extended in writing by the Agency, or upon the Lender's earlier notification to the Agency that it does not desire to obtain an Agency guarantee.

UNITED STATES OF AMERICA

By: _____

Date: _____
(Title)

¹ Insert fixed interest rate.

² Insert any additional conditions or requirements in this space or on an attachment referred to in this space; otherwise, insert "NONE".

³ The Agency will determine the expiration date of this contract. This date will not exceed 90 days from the date of issuance. The Agency may grant one (1) 90 day extension. Consideration will be given to the date indicated by the Lender in the acceptance of conditions. If construction is involved the expiration date will correspond with the projected completion of the project.

According to the Paperwork Reduction Act of 1995, no person is required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

LENDER CERTIFICATION FOR SFH GUARANTEED LOAN

In connection with the request for loan note guarantee for _____, the following

certifications are made by _____ (Lender). We hereby certify that:

- 1) No major changes have occurred since the issuance of the Conditional Commitment for Guarantee that effect the subject loan request, except any that have been approved by the Agency in writing.
- 2) All planned property acquisition has been completed and all development has been completed.
- 3) The required insurance coverage is in effect.
- 4) All Truth-in-Lending requirements have been met.
- 5) All equal employment opportunity and nondiscrimination requirements have been met at the appropriate time.
- 6) The loan has been properly closed and the required security instruments, including any required recapture instruments, have been obtained.
- 7) The borrower(s) have marketable title to the collateral now owned by the borrower subject to the instrument securing the loan to be guaranteed and any other exceptions approved in writing by the Agency.
- 8) Lien priorities are consistent with the requirements of the Conditional Commitment for Guarantee.
- 9) The loan proceeds have been disbursed for purposes and in amounts consistent with the Conditional Commitment for Guarantee.
- 10) There has been no adverse change in the borrower's financial condition or any other adverse change in the borrower's situation since the Conditional Commitment for Guarantee was issued by the Agency.
- 11) All other requirements listed in the Conditional Commitment for Guarantee have been met.
- 12) At this time, the loan will be _____ retained, or _____ sold to _____
an approved _____ FNMA _____ FHLMC _____ GNMA lender.
The new Lender's address is _____

Their contact person will be _____
who can be contacted at _____

TITLE DATE

LENDER'S AUTHORIZED
REPRESENTATIVE SIGNATURE

ATTACHMENT TO RURAL DEVELOPMENT CONDITIONAL COMMITMENT FOR LOAN GUARANTEE

NAME:

DATE:

LOAN AMOUNT:

Please submit the checked items below to Rural Development so that we may issue the Loan Note Guarantee:

- ☐ Provide a signed copy of the Promissory Note {RD Instruction 1980.361}
- ☐ Provide a completed Form RD 1980-19, "Guaranteed Loan Closing Report" To assist with our review, this submission must designate a contact person, and provide all pertinent information including name, postal and e-mail addresses, as well as phone and fax numbers. Additionally, please provide the necessary information regarding where to mail the Loan Note Guarantee {RD Instruction 1980.361 and 1980.363}
- ☐ If the loan is to be sold or there is a change in the Servicing Lender, complete and submit Form RD 1980-11, "Guaranteed Rural Housing Record Change"
{RD Instruction 1980.309(e)}
- ☐ Provide the "Lender Certification for SFH Guaranteed Loan" which is located on page two of Form RD 1980-18, "Conditional Commitment for Single Family Housing Loan" {RD Instruction 1980.360(a)}
- ☐ Provide a copy of the duly executed HUD-1, "Settlement Statement" {RD Instruction 1980.324(a)}
- ☐ GRH fee (amount indicated on RD Form 1980-18)
- ☐ Copy of executed buy-down agreement

Other:

Send the above to:

Documentation to be retained in the lender file:

- ☐ Rural Development concurs with the lender's ratio waiver request
- ☐ Loan to be secured by a first lien with marketable title
- ☐ All first time homebuyers with a credit score below 660 are required to take a homebuyers/homeownership class.
- ☐ The lender is responsible to document compliance with the RD Instructions 1980.313, and, 1980.340(a), and, 1980.341(b)(1)(i) (existing properties)
 - that the dwelling meets the current requirements of HUD Handbook 4150.2 and 4905.1
 - ALL deficiencies must be corrected prior to loan closing
 - Water test, septic inspection and termite certificate must be included in the lender file
- ☐ The lender is responsible to document compliance with RD Instruction 1980.313, 1980.340, and 1980.341 (new construction)
- ☐ If this loan has a funded buy-down account, the lender must comply with the terms of RD Instruction 1980.392(b)
- ☐ Manufactured units must meet HUD 3 U/O Value Zone to meet the necessary thermal requirements. The Comfort Heating Certification must be permanently affixed near the main electrical panel or other readily accessible and visible location
- ☐ The Lender is to certify that the unit has an affixed certification label indicating that it was constructed in accordance with the Federal Manufactured Home Construction and Safety Standards (FMHCSS). The label should read as follows:

As evidenced by this label No. _____, the manufacturer certifies to the best of the manufacturer's knowledge and belief that this manufactured home has been inspected in accordance with the requirements of the Department of Housing and Urban Development and is constructed in conformance with the Federal Manufactured Home Construction and Safety Standards in effect on the date of manufacture. See data plate {RD Instruction 1980.313(l)}. The manufactured housing unit must comply with all requirements of RD Instruction 1980.313(i).

Loan Closing

- Make certain that the loan amount and interest rate matches (or is less than) the amount and rate shown on the Conditional Commitment.
- Make sure you send the Guarantee Fee as indicated on the front of the Conditional Commitment (RD Form 1980-18).
- Submit the closing package and guarantee fee to the Rural Development office that issued the Conditional Commitment.
- Upon receiving **Form RD 1980-17**, "Loan Note Guarantee" from Rural Development, attach it to the original promissory note as evidence of the guarantee.

See below sample Form RD 1980-17 "Loan Note Guarantee"

Form RD 1980-17
(Rev. 1-98)
Rural Housing Loan
7 CFR Part 1980
Subpart D

Position
UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
RURAL HOUSING SERVICE

Form Approved
OMB No. 0575-007

LOAN NOTE GUARANTEE	
	State
	County
	Date of Note
Borrower Name	RHS Case No.
Lender	Lender IRS ID No.
Lender's Address	Principal Amount of Loan
	\$

This Loan Note Guarantee is issued under Lender Agreement for Guaranteed Single Family Housing Loans dated _____ in connection with the above identified loan.

In consideration of the making of the subject loan by the Lender, the United States of America, acting through the Rural Housing Service of the Rural Development mission area (herein called "RHS"), pursuant to Title V of the Housing Act of 1949 (42 U.S.C. 1471 et. sec.), agrees that, subject to the terms and conditions herein, it will pay to the Lender the lesser of

1. Any loss of an amount equal to 90 percent of the principal amount actually advanced to the Borrower, or
2. Any loss sustained by the lender of an amount up to 35 percent of the principal amount actually advanced to the Borrower, plus 85 percent of any additional loss sustained by the Lender of an amount up to the remaining 65 percent of the principal amount actually advanced to the Borrower.

Loss includes only (a) principal and interest evidenced by the Note, (b) any loan subsidy due and owing, and (c) any principal and interest indebtedness on RHS approved protective advances for protection and preservation of collateral. Interest (including any subsidy) shall be covered by the Loan Note Guarantee to the date of the final loss settlement when the Lender conducts liquidation of collateral in an expeditious manner. Net proceeds received from liquidation of the collateral will be used in calculating the amount of loss sustained by the Lender. If the Lender acquires the collateral, the net proceeds from collateral for calculating loss shall be determined by RHS as follows: (i) the collateral will be appraised at its current market value as of the date of acquisition by the Lender then (ii) deduct from such appraised value an estimate of liquidation costs which will include an allowance for the estimated time the property will be held by the Lender.

If RHS conducts the liquidation of the loan, loss occasioned to a Lender by accruing interest after the date RHS accepts responsibility for the liquidation will not be covered by the Loan Note Guarantee.

Lender may sell the guaranteed loan only to a Lender which meets the qualifications and in the manner as provided in Subpart D, 7 CFR 1980. Such loan must not be in default at the time of the sale. Lender may obtain participation in its loan under its procedures. Participation means a sale of an interest in the loan wherein the Lender retains the note, collateral securing the note, and all responsibility for all loan servicing and liquidation. A participant has no rights under this instrument.

CONDITIONS OF THE GUARANTEE

1. Loan Servicing

Lender will be responsible for servicing the entire loan and Lender will remain mortgagee and/or secured party of record. The Lender may sell the loan servicing rights to an RHS eligible Lender when the purchasing Lender agrees to be bound by all of the same terms as the selling Lender and this agreement and the RHS Lender Agreement for Guaranteed Single Family Housing Loans.

2. Full Faith and Credit

The Loan Note Guarantee constitutes an obligation supported by full faith and credit of the United States and is incontestable except for fraud or misrepresentation of which the lender has actual knowledge at the time it becomes such lender or which the lender participates in or condones. A note which provides for the payment of interest on interest shall not be guaranteed. If the note to which this instrument is attached or relates provides for the payment of interest on interest, then this Loan Note Guarantee is void. In addition, the Loan Note Guarantee will be unenforceable by the lender to the extent any loss is occasioned by violation of usury laws, negligent servicing, or failure to obtain the required security regardless of the time at which RHS acquires knowledge of the foregoing. Any losses

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 3 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

occasioned will be unenforceable by the lender to the extent that loan funds are used for purposes other than those approved by RHS in its Form RD 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee." Negligent servicing is defined as the failure to perform those services which a reasonably prudent lender would perform in servicing its own loan portfolio of loans that are not guaranteed. The term includes not only the concept of a failure to act but also not acting in a timely manner or acting contrary to the manner in which a reasonably prudent lender would act up to the time of loan maturity or until a final loss is paid.

3. Lender will receive all payments or principal and interest and any loan subsidy on the account of the entire loan.

4. Protective Advances made by the Lender pursuant to RHS regulations will be guaranteed against a percentage of the loss to the same extent as provided in this Loan Note Guarantee.

5. The Loan Note Guarantee will terminate automatically (a) upon full payment of the guaranteed loan, or (b) upon full payment of any loss obligation hereunder; or (c) upon written notice from the Lender to RHS that the guarantee will terminate provided this Loan Note Guarantee is returned to be canceled by RHS.

6. Any amount due under this instrument will be determined and paid, as provided in 7 CFR Part 1980, Subpart D in effect on the date of this instrument.

7. All notices and actions will be initiated through RHS _____ for _____ (State) at the following mailing address:

UNITED STATES OF AMERICA
RURAL DEVELOPMENT
RURAL HOUSING SERVICE

By: _____

Title: _____

Date: _____

Assumption Agreement by: _____ Dated: _____
(Transferee)

Assumption Approved by RHS: _____ Dated: _____
(new note, if taken, is attached)

Assumption Agreement by: _____ Dated: _____
(Transferee)

Assumption Approved by RHS: _____ Dated: _____
(new note, if taken, is attached)

GRH PROCESSING GUIDE

1. Complete Form 1980-21 with the applicant at the time of application.
2. Fax the Reservation of Funds Form 1980-86 to the appropriate Rural Development Office. (optional but still requested in VA for quick turn around)
3. Rural Development will return a “Confirmation of Funds” for the requested amount. The funds are set aside for 60 days while you process the loan through underwriting and RD’s loan approval. Complete your loan origination package: Submit to your underwriter.
4. If your underwriter or investor approves the loan, they will send RD a complete package with the underwriter’s approval and supporting documentation. **Do not submit your loan packages simultaneously to your underwriter and Rural Development.**
5. Rural Development will review the underwritten application package and issue a Conditional Commitment within 24-48 hours of receiving a complete package, indicating any approval conditions directly to the underwriter. Typically, a copy is faxed to the originator.
6. Upon approval of the loan RD will issue the Conditional Commitment to the lender listing any loan approval conditions. The Conditional Commitment provides you a 90-day window to close the loan and submit your closing package with the Guarantee Fee to Rural Development.
7. The underwriting lender will inform the originating office and closing department of the loan conditions set by both the underwriter and Rural Development.
8. The closing lender closes the loan if all underwriter and Rural Development conditions have been met.
9. The underwriting/closing lender submits a closing package to Rural Development to obtain the Loan Note Guarantee. Refer to the “Loan Closing” section for more information.
10. Rural Development issues the Loan Note Guarantee to the approved Underwriting/closing lender.
11. The Loan Note Guarantee must be attached to the original promissory note as proof of guarantee in the event of a loss.

Rural Development and YOU!
Helping MORE buyers achieve the dream of homeownership!

Virginia Rural Development Area Offices and Counties Served

AREA I - Wytheville		AREA II - Lynchburg	
Wytheville	Lebanon (Suboffice)	Lynchburg	Rocky Mount (Suboffice)
Bland	Bristol	Amherst	Alleghany
Carroll	Buchanan	Appomattox	Bath
Craig	Dickenson	Bedford	Botetourt
Floyd	Lee	Buckingham	Buena Vista
Galax	Norton	Campbell	Covington
Giles	Russell	Charlotte	Danville
Grayson	Scott	Cumberland	Franklin
Montgomery	Tazewell	Halifax	Henry
Pulaski	Washington	Lunenburg	Lexington
Radford	Wise	Mecklenburg	Martinsville
Roanoke		Pittsylvania	Patrick
Salem		Prince Edward	Rockbridge
Smyth			
Wythe			
100 USDA DRIVE WYTHEVILLE, VA 24382 TEL (276) 228-3513 FAX 276-228-2049	140 HIGHLAND DRIVE, SUITE 5 LEBANON, VA 24266 TEL (276) 889-4650 x4 FAX 276-889-2105	P O BOX 4337 20311-A TIMBERLAKE RD LYNCHBURG, VA 24502 TEL (434) 239-3473 FAX 434-239-3735	1297 STATE STREET ROCKY MOUNT, VA 24151 TEL (540) 483-5341 x4 FAX 540-483-0006

AREA III - Harrisonburg		AREA IV - Courtland	
Harrisonburg	Culpeper (Suboffice)	Courtland	Richmond (Suboffice)
Augusta	Albermale	Accomack	Amelia
Clarke	Arlington	Brunswick	Charles City
Frederick	Caroline	Chesapeake	Chesterfield
Harrisonburg	Culpeper	Dinwiddie	Colonial Heights
Highland	Fairfax	Emporia	Essex
Page	Falls Church	Franklin City	Gloucester
Rockingham	Fauquier	Greensville	Goochland
Shenandoah	Fluvanna	Hopewell	Hampton City
Staunton	Fredericksburg	Isle of Wight	Hanover
Warren	Greene	Northampton	Henrico
Waynesboro	King George	Petersburg	James City
Winchester	Loudoun	Prince George	King & Queen
	Louisa	Southampton	King William
	Madison	Suffolk City	Lancaster
	Manassas	Surry	Mathews
	Nelson	Sussex	Middlesex
	Orange	Virginia Beach	New Kent
	Prince William		Newport News City
	Rappahannock		Northumberland
	Spotsylvania		Nottoway
	Stafford		Poquoson
			Powhatan
			Richmond
			Westmoreland
			Williamsburg
			York
1934 DEYERLE AVE, SUITE D HARRISONBURG, VA 22801 TEL (540) 433-9126 FAX 540-432-1707	351 LAKESIDE DRIVE CULPEPER, VA 22701 TEL (540) 825-4200 x4 FAX 540-825-1655	22329 MAIN ST SOUTHAMPTON OFFICE BLDG 2 COURTLAND, VA 23837 TEL (757) 653-2532 FAX 757-653-2278	1606 SANTA ROSA ROAD, SUITE 239 RICHMOND, VA 23229 TEL (804) 287-1613 TEL (804) 287-1611 FAX 804-287-1714

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Rural Development Managers, and
Community Development Managers

FROM: Russell T. Davis *(Signed by Tom Hannah)* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Condominium Requirements

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify Single Family Housing Guaranteed Loan Program (SFHGLP) condominium requirements, and how to determine if the condominium has been approved or accepted by the United States Department of Housing and Urban Development (HUD), Veteran Affairs (VA), Fannie Mae (FNMA), or Freddie Mac (FHLMC).

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4196, dated July 10, 2006, which is hereby retired. This AN provides additional guidance relating to ineligible condominium project types under HUD, FNMA, FHLMC, or VA guidelines. This AN also takes into account certain changes to FHLMC Condominium Class II requirements.

EXPIRATION DATE:
August 31, 2008

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Condominium projects and their units are invariably served by homeowners associations (HOA's). RD Instruction 1980-D, section 1980.311(c), states in part that:

“A dwelling served by a HOA may be accepted when the project has been approved or accepted by HUD, VA, FNMA, or FHLMC.”

Dwellings served by HOA's can be under three types of projects: Planned Unit Development (PUD), cooperatives, or condominiums. Other than condominiums, this AN does not apply to any dwellings served by an HOA.

Ineligible Properties

Certain types of condominium projects are not eligible under HUD, FNMA, FHLMC, or VA guidelines. They are:

- Condominium hotels.
- Timeshares.
- Houseboat projects.
- Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling by a single deed and mortgage.
- Any project for which the owner's association is named a party to current litigation or for a project that has not been turned over to the association for which the project sponsor or developer is named a party to current litigation.
- Condominiums that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their full or partial destruction.
- Investment Securities – A project in which ownership is characterized or promoted as an investment opportunity; and/or projects that have documents in file with the Securities and Exchange Commission.
- Common interests apartments or community apartment projects – Any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building.
- A project with non-incidental business operations owned or operated by the owners' association such as, but not limited to, a restaurant, spa, health club, etc.
- Projects that include registration services and offer rentals of units on a daily basis.
- Projects that restrict the owner's ability to occupy the unit.

- Projects with the names that include the words “hotel” or “motel”.
- Projects with mandatory rental pooling requirements that require the unit owners to either rent their units or give a management firm control over the occupancy of the unit. These formal agreements between the developer, homeowner’s association and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.

Lender Self Certification and Warranty

HUD, FNMA, and FHLMC have delegated to lenders the authority to warrant that condominium projects meet their requirements. Lenders have the ability to “self certify” or warrant that condominiums purchased by FNMA or FHLMC, or insured by HUD, meet the minimum requirements of those entities. Lenders can warrant that they have reviewed condominium documentation, that the condominium meets the requirements of HUD, FNMA, or FHLMC, and that the documentation remains available in the lender file for verification purposes. The documentation containing the information necessary to determine if a condominium would be approved by HUD, FNMA, or FNMA are:

- a condominium questionnaire, and
- the condominium’s master hazard insurance policy.

Neither the condominium questionnaire nor the master hazard insurance policy have form numbers. Condominium master hazard insurance policies are issued by insurance companies. Each insurance company uses it’s own letterhead and format. The lender reviews the master insurance policy to determine the type of coverage and whether the policy offers coverage sufficient to meet requirements.

The condominium questionnaire typically is sent to the condominium HOA on the lender’s letterhead. It contains questions about the number of units in the condominium project, how many of the units have been sold or rented, whether all the common areas have been 100 percent completed, and other questions concerning the condominium project.

The condominium’s HOA officer or managing agent completes the questionnaire and returns it to the lender, who then reviews the questionnaire responses in order to determine whether HUD, FNMA or FHLMC requirements have been fulfilled. The lender must retain all of the documentation in case HUD, FNMA or FHLMC wish to examine it in order to determine that the lender’s certification or warranty was truthful and correct.

In every case, the lender is responsible for keeping a copy of the condominium questionnaire, the condominium's master hazard insurance policy, and any other related documents in the lender's file. The lender does not produce the condominium documentation unless requested by HUD, FNMA or FHLMC. Lenders retain the condominium documentation in file for audit purposes.

Lenders do not issue individual certifications or warranties to HUD, FNMA, or FHLMC for each condominium unit. The warranty is part of the master contract between the lender and HUD, FNMA, and FHLMC. By simply stating the project classification on the Uniform Underwriting and Transmittal Summary (FNMA Form 1008, FHLMC Form 1077) the lender certifies that the condominium unit meets the requirements.

For the purpose of providing detail on what a lender certification or warranty attests to, please see attached Table 1 for HUD requirements, Table 2 for FHLMC requirements, and Table 3 for FNMA requirements.

HUD Condominium Types

As seen in Table 1, HUD has only two condominium types. They are "Proposed and New Construction" and "Approved New Projects with Construction Complete". Table 1 illustrates the differences between the two as it pertains to project phases, owner occupancy ratios, and other requirements.

Freddie Mac Condominium Types

As seen in Table 2, FHLMC has three condominium types: Class I, Class II, and Class III. The different requirements between each of these condominium types are stratified on Table 2.

Fannie Mae Condominium Types

As seen in Table 3, FNMA six condominium types: Type P, Type Q, Type R, Type S, Type T, and Type U. Types P, Q and S have two subcategories each with different requirements based on whether the condominiums are attached or detached.

FNMA's CPM has been enhanced to permit lenders to perform a Lender-delegated Expedited Review (Type R) for new projects that:

- contain more than 200 units,
- are built on a leasehold estate, or
- are condominium conversion projects that do not involve gut rehabilitation. (Gut rehabilitation refers to the renovation of a property down to the shell with the replacement of all high efficiency air conditioning Units and electrical components.

VA Requirements

The VA has not delegated to lenders the authority to warrant condominium projects. VA reviews each condominium's organizational documents for compliance with VA regulations, and notifies the lender in writing of VA's approval. The lender should retain the VA documentation in the lender's file, and it should be available upon request.

IMPLEMENTATION RESPONSIBILITIES:

Participating lenders may certify to Rural Development that they have reviewed the condominium documentation, and that the condominium is in compliance with HUD, VA, FNMA, or FHLMC guidelines. Rural Development's Condominium Certification Form (Exhibit A) is attached to this AN. Its use is optional. Aside from the lender certification to Rural Development, all condominium documentation should remain in the lender's file and should be available upon request. The documentation must be provided if no certification is submitted.

When there is an indication that a condominium unit or project does not meet the requirements of HUD, VA, FNMA or FHLMC, the Agency will request additional documentation from the lender. If the condominium unit or project does not meet the stated requirements as certified or warranted by the lender, the Agency may refuse to issue a conditional commitment or loan note guarantee.

Should there be any questions concerning this AN, please contact Stuart Walden or Joaquín Tremols, Single Family Housing Guaranteed Loan Division at (202) 720-1452. Their respective email addresses are stuart.walden@wdc.usda.gov and joaquin.tremols@wdc.usda.gov.

Attachments:

Table 1 - HUD Condominium Requirements							
Condo Type	Primary Residence	Subject to Phasing/Add-ons	Completion of the common elements and amenities	Pre-Sale Requirements (number of units sold or conveyed prior to the sale of the subject property).	Owner Occupancy Ratio Requirements	Control of Condominium Association	MasterHazard, Flood, Earthquake, Liability, & Fidelity Coverage
Proposed and New Construction (Excludes Manufactured Homes)	Yes	Yes	Not Required	70%	51%	Developer	Liability: \$1 million Hazard: Replacement
Approved New Projects with Construction complete (Excludes Manufactured Homes)	Yes	Not subject to phasing or add-ons	Required	80%	80%	Developer or unit owners	100% Replacement exclusive of land, foundation, & excavation

Table 2 - Freddie Mac Condominium Requirements

Condo Type	Primary Residence	Subject to Phasing/Add-ons	Completion of the common elements and amenities	Pre-Sale Requirements (number of units sold or conveyed prior to the sale of the subject property).	Owner Occupancy Ratio Requirements	Control of Condominium Association	Master Hazard, Flood, Earthquake, Liability, & Fidelity Coverage
Class I	Yes	May be subject to phasing or add-ons.	Required	70%	70% by owners as Primary or 2 nd Homes	Developer	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements
Class II	Yes	Not subject to phasing or add-ons	Required	60% when project consists of Manufactured Housing. No presale requirement if the Condo Unit Mortgage is secured by a primary residence or second home and the project is not comprised of Manufactured Homes.	60% by owner as Primary or 2 nd Homes when project consists of Manufactured Housing. No owner occupancy requirement if the Condo Unit Mortgage is secured by a primary residence or second home and the project is not comprised of Manufactured Homes.	Unit Owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements
Class III	Yes	Not subject to phasing or add-ons	Required	90%	60% by owner as Primary or 2 nd Home	Unit owners have been in control for at least 1 year	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements

Table 3 - Fannie Mae Condominium Requirements

Condo Project Classification Type	Primary Residence	Subject to Phasing/Add-ons	Completion of the common elements and amenities for project or subject legal phase	Pre-Sale Requirements (Number of units sold or conveyed prior to the sale of the subject property).	Owner Occupancy Ratio Requirements	Control of Condominium Association	Liability, Hazard, Flood & Fidelity Coverage
Type P Lender-Delegated Limited Reviews of New Projects	Primary and Second Homes	Yes	Required	None	None	Developer or unit owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements
Type P Lender-Delegated Reviews of Detached Condominiums	Primary and Second Homes	Yes	Not Required	None	None	Developer or unit owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements
Type Q Lender-Delegated Limited Reviews of Established Condominium Projects	Primary and Second Homes	Yes	Required	None	None	Developer or unit owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements
Type Q Lender-Delegated Limited Reviews of Detached Condominium Projects	Primary and Second Homes	Yes	Not Required	None	None	Developer or unit owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements

Type R Lender-Delegated Expedited Project Review of a New Project (Fannie Mae's Condo Project Manager "CPM" must be used)	Primary, Second and Investor	Yes	Required	50% must be sold or under contract to primary or second home buyers. "CPM" will determine; 50% or less	50% must be sold or under contract to primary or second home buyers. "CPM" will determine; 50% or less	Developer or unit owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements Fidelity Bond if project consists of > 20 units.
Type S Lender-Delegated Expedited Project Review of Established Projects	Primary, Second and Investor	Not subject to add phasing or add-ons	Required for entire project. (Including Master Association if applicable)	90 % conveyed	50% primary or second homes	Unit owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements
Type S Lender-Delegated Expedited Project Review of Established 2-4 Unit projects	Primary, Second and Investor	Not subject to add phasing or add-ons	Required for entire project. (Including Master Association if applicable)	50% (1-2 Units) 67% (3 Units) 75% (4 Units)	50% (1-2 Units) 67% (3 Units) 75% (4 Units)	Developer or unit owners	Liability: \$1 million Hazard: Replacement Flood: "FEMA" requirements

Footnotes to Table 3 – Fannie Mae (FNMA) Condominium Requirements

Type P: Lender-Delegated Limited Reviews of New Projects

1. Units must be owned Fee Simple or FNMA acceptable Ground Lease.
2. Unit owners must have sole ownership interest and rights to the use of project's facilities common elements, and limited common elements once control of the association is turned over.

Type P: Lender-Delegated Reviews of Detached Condominiums

1. Units must be owned Fee Simple or FNMA acceptable Ground Lease.
2. Unit owners must have sole ownership interest and rights to the use of the project's facilities, common elements, and limited common elements once control of the owner's association is turned over.

Type Q: Lender-Delegated Limited Reviews of Established Condominium Projects

1. Units must be owned Fee Simple or FNMA acceptable Ground Lease.
2. Unit owners must have sole ownership interest and rights to the use of the project's facilities, common elements, and limited common elements once control of the owner's association is turned over.

Type Q: Lender-Delegated Limited Reviews of Detached Condominium Projects

1. Units must be owned Fee Simple or FNMA acceptable Ground Lease.
2. Unit owners must have sole ownership interest and rights to the use of project's facilities, common elements, and limited common elements once control of the association is turned over.

Type R: Lender-Delegated Expedited Project Review of a New Project (FNMA's Condo Project Manager "CPM" must be used)

1. No single entity other than the developer during the initial sales period may own more than 10% of the total units.
2. Projects with less than 10 units cannot allow a single entity to own more than 1 unit.
3. If more than 50% of the total units are expected to be sold to investors, lender must contact FNMA and request a waiver.
4. Units must be owned Fee Simple.
5. Lender will review and accept separate legal phases on a phase-by-phase basis.
6. Project must be a gut-rehab conversion or new construction.
7. Project can't exceed 200 units.

Type S: Lender-Delegated Expedited Project Review of Established Projects

1. Units must be owned Fee Simple or FNMA acceptable Ground Lease.

Type S: Lender-Delegated Expedited Project Review of New and Established 2-4 Units projects

1. Units must be owned Fee Simple or FNMA acceptable Ground Lease.
2. Each small condominium must have its own separate legal documents.
3. No one entity may own more than one unit.

Exhibit A

Condominium Certification

This warranty certifies the dwelling served by the homeowners association and identified below has been approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac. Documentation supporting this certification will be maintained in the lender's files and will be available for inspection by Rural Housing Service, United States Department of Agriculture upon request.

Borrower: _____

Property Address: _____

Lender: _____

Representative Name: _____

Representative Signature: _____

RD AN No. 4305 (1980-D)
September 11, 2007

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Rural Development Managers, and
Community Development Managers

FROM: Russell T. Davis /s/ *David Villano* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Form RD 1980-17, "Loan Note Guarantee"

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify Rural Development procedure on the issuance and retention of Form RD 1980-17, "Loan Note Guarantee," and affirm Agency policy on a lender's request for a duplicate copy.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4202 (1980-D) dated August 5, 2006.

EXPIRATION DATE:
September 30, 2008

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

IMPLEMENTATION RESPONSIBILITIES:

Form RD 1980-17 constitutes the Government's obligation to guarantee the associated loan. The holding lender must retain the original loan Note Guarantee with the original Promissory Note at all times.

When a lender requests issuance of a Loan Note Guarantee, the lender should inform the Agency of the address to which the document should be sent. If a lender requests a Loan Note Guarantee to be issued, but the address of the lender holding the Promissory Note changes before the Loan Note Guarantee is received, the requesting lender should forward the document upon receipt to the appropriate party with instructions to attach it to, and retain it with, the original Promissory Note. Lenders are reminded that if the loan has been sold or the servicing rights transferred, the Agency should be notified as soon as possible by submitting Form RD 1980-11, "Guaranteed Rural Housing Lender Record Change."

On occasion, a lender may lose and request a certified copy or duplicate original of a Loan Note Guarantee. A certified copy is a duplicate of an original document that is certified as a true copy by the lender having custody of the original. The Agency cannot issue a certified copy of the Loan Note Guarantee because the original document is issued to the lender, and the Agency retains only a photocopy of the form in its files. Thus, the Agency cannot issue a certified copy of a Loan Note Guarantee. The Agency, however, may issue a duplicate original. A duplicate original should be clearly marked as such. It should be dated the same date as when the original Loan Note Guarantee was issued, and it should be signed in ink by authorized personnel as if it were an original Loan Note Guarantee.

The Agency will accept a duplicate original of the Loan Note Guarantee as evidence of the Government's obligation to guarantee the associated loan. The Agency will also accept a certified copy of the Loan Note Guarantee if it is certified as a true copy in accordance with the document authentication laws and regulations of the State in which the copy was certified.

Should there be any questions concerning this AN, please contact Dave Chaput or Joaquín Tremols at (202) 720-1452. Their respective email addresses are david.chaput@wdc.usda.gov and joaquin.tremols@wdc.usda.gov.

cc:
SFHGLD-2
SFHGLD-Originator

SFHGLD JTremols:fb:final:08/27/07:720-1465
Recall: S:\RHS\sfh-files\Tremols\Adminstrative Notices\AN Reissue-Duplicate Loan Noet
Guarantee 8-2007.doc

Log #

Unit	Initial & Date	Unit	Initial & Date
SFHGLD		DASFH	
SFHGLD		RPMB	
SFHGLD		ADMIN	
SFHGLD			

RD AN No. 4330 (1980-D)
January 30, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Rural Development Managers, and
Area Directors

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Guaranteed Underwriting System (GUS)

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate and clarify guidance on the availability and use of the Single Family Housing Guaranteed Loan Program's (SFHGLP) automated underwriting system, known as the Guaranteed Underwriting System (GUS). GUS is available, at no cost, to all approved lenders. Although use is not required at this time, lenders are encouraged to fully utilize GUS in their SFHGLP activity.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4273 (1980) dated April 24, 2007, on this subject.

EXPIRATION DATE:
February 28, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Automated underwriting systems became prevalent in the mortgage industry during the 1990's. In response to frequent requests from SFHGLP partners and approved lenders, Rural Development developed an automated underwriting system, known as GUS. The automated process of GUS benefits approved lenders and the Agency by offering faster loan processing, with superior accuracy, and improved consistency compared with manual underwriting.

GUS incorporates applicant eligibility and underwriting requirements of RD Instruction 1980-D and associated Administrative Notices (AN's) by utilizing a modified version of the Federal Housing Administration (FHA) mortgage scorecard known as Technology Open To Approved Lenders (TOTAL) concurrently with a rules based engine. GUS is accessed through a secure web-based automated underwriting environment at:

https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp.

GUS considers mortgage loan application data entered by the originator, credit repository data, and property information to evaluate a potential borrower's ability to meet a proposed mortgage obligation. GUS evaluates select components in a mortgage loan application and provides a credit evaluation and underwriting recommendation within seconds.

Incorporated within the functionality of GUS are the following components:

Property and Income Eligibility

- The dwelling offered as collateral for the proposed mortgage loan is located in an eligible rural area; and
- The applicant's annual household income meets the adjusted income limits in accordance with size of household, county and State in which the applicant(s) will reside.

GUS Rules Based Engine

- The Engine incorporates the guidelines found in RD Instruction 1980-D, supplemented by Administrative Notices (AN) regarding originating SFHGLP loans, that are published to clarify RD Instruction 1980-D.

TOTAL Scorecard

- GUS uses a modified version of the FHA mortgage scorecard known as TOTAL.
- The scorecard has been validated and adjusted for SFHGLP use.
- The TOTAL scorecard, including the modified version validated for SFHGLP use, is intellectual property that is proprietary to The Department of Housing and Urban Development (HUD).
- Factors considered under the scorecard include credit history, payment-to-income ratios, and loan-to-value ratios.

- The scorecard also gives favorable consideration to applicants that exhibit positive compensating factors such as available reserves for housing payments after loan closing, which expands upon guidance provided in RD Instruction 1980-D and associated ANs.

Credit Bureau Interface

- GUS links with hundreds of credit providers nationwide. Users may link to a full list of credit providers at:
<https://www.efanniemae.com/sf/refmaterials/creditproviders/index.jsp>
- An interface occurs between GUS and the credit bureaus through a platform known as the Fannie Mae Credit Interface Service (CIS).
- The interface is seamless to lenders and only acts as a conduit.
- New or re-issued credit can be pulled through GUS.
- Reports are valid for 180-days.
- Lenders are not required to be a Fannie Mae subscriber or partner to utilize the credit report interface in GUS.

IMPLEMENTATION RESPONSIBILITIES:

Entering and Submitting Data

Data Integrity with GUS

The responsibility of loan data integrity remains with the lender. The data provided for a loan guarantee request must correspond to the loan application and underwriting documentation. Upon submission to the Agency, the lender represents that all information submitted is true, complete and accurate.

- GUS evaluates the credit risk of mortgage loan requests based upon information provided by the credit repositories and the data input by the lender.
- The responsibilities associated with producing loans of acceptable quality for loan guarantees by Rural Development remains the same for GUS evaluated mortgages or manually underwritten mortgages.
- GUS is intended to compliment and not replace the judgment of experienced underwriters. A GUS decision is NOT the basis for granting or denying credit and is not a replacement for a lending decision by the lender. The decision to grant or deny credit to a potential borrower remains with the lender.

The GUS Process

The following table provides a high-level overview of the GUS process:

Step	Action
1.	Obtain borrower information by completing a mortgage loan application.
2.	Enter the borrower, property and mortgage loan information directly into GUS. Importing loan applications from the lender's loan origination system will become functional in the future.

3.	Submit the mortgage loan request to GUS for a loan underwriting recommendation. The evaluation is based upon: <ul style="list-style-type: none"> ▪ Data entered directly by the lender. ▪ Credit information obtained from national credit repositories. ▪ Risk evaluation through use of the modified TOTAL scorecard, adjusted for SFHGLP use. ▪ Application of rules under RD Instruction 1980-D and related Administrative Notice (AN) releases.
4.	The lender will review the GUS Findings and Underwriting Analysis for feedback messages regarding the results of the GUS underwriting recommendation and the credit reports.
5.	The lender will document the mortgage loan request according to Rural Development guidelines.
6.	The lender will make a lending decision using the GUS Underwriting Findings Report, credit report (s), income, employment, asset, collateral and other file documentation. The lender will submit, through a final submission, the GUS file to the Agency for Conditional Commitment. Documentation for Conditional Commitment will be based upon the rendered underwriting recommendation by GUS.

Documenting and Underwriting a Mortgage Loan Request through GUS

When a lender enters mortgage loan data into GUS and requests a loan underwriting evaluation, a two part underwriting summary is delivered to the lender through a GUS Underwriting Findings Report. The first portion of the underwriting summary will render an underwriting recommendation of ACCEPT, REFER or REFER WITH CAUTION. An INELIGIBLE or UNABLE TO DETERMINE may also be delivered. The underwriting recommendation is followed by a risk evaluation of ELIGIBLE, INELIGIBLE, or UNABLE TO DETERMINE. The second portion represents a combined analysis of property, income, and loan and borrower eligibility. An example of the display on the Underwriting Findings Report is as follows:

Underwriting Recommendation: **ACCEPT/ELIGIBLE**

ACCEPT/ELIGIBLE Underwriting Recommendation

If GUS renders an underwriting recommendation of ACCEPT or ELIGIBLE, based on the analysis of the credit, capacity and other loan characteristics, the loan is eligible for Rural Development's loan guarantee. This is provided the data entered in GUS by the lender is true, complete and accurate.

Minimal documentation provisions apply to GUS underwriting recommendations that receive an ACCEPT. The lender may submit the following three completed documents to obtain a Conditional Commitment when the GUS underwriting recommendation is ACCEPT:

1. “Uniform Residential Appraisal Report” (URAR) for single family dwelling units or its equivalent, or condominiums or manufactured homes [Federal National Mortgage Association (FNMA) Form 1004 or Freddie Mac Form 70].
2. “Standard Flood Hazard Determination Form” [FEMA Form 81-93].
3. “Request for Single Family Housing Loan Guarantee” [Form RD 1980-21].

Accurate data is the responsibility of the approved lender. By submitting the mortgage loan application request through GUS, the lender is representing that the data input is true, complete and accurate. Underwriting is the responsibility of the approved lender. Only a nominal amount of time by Agency personnel should be spent on GUS mortgage loan applications receiving an ACCEPT.

Mortgage loan documents may be photocopied, scanned, emailed, faxed or delivered by regular or express mail. All documents must be clear and legible. The necessity to collect an original Form RD 1980-21 is no longer required. A photocopy, scanned, emailed or faxed Form RD 1980-21 is acceptable.

ACCEPT/INELIGIBLE Underwriting Recommendation

Loans receiving this recommendation have been determined as meeting Rural Development’s risk standards for loan guarantee; however do not meet certain eligibility guidelines. Typical reasons for an ACCEPT/INELIGIBLE recommendation may include:

- Property not located in a rural area.
- The applicant’s annual income exceeds Rural Development guidelines.
- Non-owner occupied transaction.
- Not a qualified alien.

Loans that receive a recommendation of ACCEPT/INELIGIBLE may still be eligible for a Rural Development loan guarantee. To achieve eligibility, the lender’s underwriter should analyze the findings report and determine the basis for the ineligibility and determine if the reason for ineligibility can be resolved in order to comply with Rural Development guidelines. Issues that caused the loan to be ineligible may be resubmitted to obtain a correct underwriting recommendation.

REFER or REFER WITH CAUTION Underwriting Recommendation

GUS loans receiving an underwriting recommendation of REFER or REFER WITH CAUTION will require further review by the lender. Risk factors have been identified based upon the data entered in to GUS. The credit risk evaluation represented by a REFER WITH CAUTION is greater than the credit risk of loans that receive a REFER. The lender’s underwriter must perform a manual underwriting evaluation of the mortgage loan application to determine if the borrower is creditworthy in accordance with Rural Development standard credit policies and guidelines found at RD Instruction 1980-D and associated ANs. Full documentation provisions, as required for present manually underwritten mortgage loan applications apply to GUS underwriting recommendations receiving a REFER or REFER WITH CAUTION. Credit documentation, mitigating

circumstances, and compensating factors considered in the manual underwriting analysis should be recorded in the lender's permanent case file. Compensating factors considered in the evaluation of the mortgage loan application should be documented on the underwriting analysis and summary [typically the Uniform Underwriting Transmittal Summary – FNMA Form 1008/Freddie Mac Form 1077 or equivalent].

Loans should not be denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to Rural Development standard guidelines may be considered.

Documentation Requirements

As stated in RD Instruction 1980-D, and keeping with the standards of the loan mortgage industry, lenders permanent case files will include documents verifying:

- Credit history
- Income
- Assets
- Collateral requirements
- Any other documentation supporting the mortgage loan request

Liquid assets are not required for the SFHGLP. However, the presence of assets and cash reserves after closing, if disclosed on the GUS mortgage loan application, can influence the outcome of the GUS underwriting recommendation. If assets are considered in a GUS transaction, the lender's permanent case file must document the borrower's assets.

Assets may also influence program eligible income. Assets meeting the requirements of Section 1980.347(d)(3) of RD Instruction 1980-D also require verification documentation for the lender's permanent case file.

Retirement accounts may be utilized as an asset at 70-percent of the value in the account. The discounted amount represents potential taxes or penalties for early withdrawal.

Data Modification/Loan Resubmission Requirements

The lender is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. Data entered in GUS must correspond to documentation retained in the lender's case file. If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. Lenders are responsible for resubmitting the loan to GUS when material changes are discovered. Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:

- Borrowers were either added or deleted from the loan application.
- A decrease in the borrower's income and/or cash assets/reserves.

- An increase in loan amount or interest rate on the mortgage loan request.
- Any changes that would negatively affect the borrower's ability to repay the mortgage.
- Information regarding the property changes – such as a change in sales price or appraised value.

In such cases, the lender must request the loan to be released from Rural Development to the lender. The lender should modify the data and resubmit the loan through GUS for an updated final evaluation underwriting recommendation.

Some data changes do not affect the outcome of an underwriting recommendation. Once a mortgage loan has been sent to the Agency as a "Final Submit," the following data changes do not require that the GUS loan application be updated:

- Loan interest rate decreases.
- Loan amount decreases.
- Decrease of mortgage or personal liabilities.
- Increase of assets.

Documentation of Underwriting Recommendation

Lenders who receive an ACCEPT from GUS do not need to prepare a Uniform Underwriting Transmittal Summary (FNMA Form 1004/Freddie Mac Form 1077), or equivalent, to document the underwriting analysis and decision. The final Underwriting Findings and Analysis report produced by GUS will be maintained in the lender's permanent loan file, in accordance with standard mortgage industry guidelines.

Sign Up for GUS

- SFHGLP approved lenders will contact their State Rural Development coordinator to request a sign up package, referred to as a "GUS Starter Pack. " A "GUS Starter Pack" outlines the steps necessary to register and gain access to GUS. A list of SFHGLP coordinators may be found at: <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=GetRHContact&NavKey=contact@12>.
- Access to GUS by mortgage brokers is not available with present functionality and will be a feature released with a future enhancement.
- Nationally approved lenders interested in a "GUS Starter Pack" may contact any of the National Office personnel noted on this AN.
- The lender will designate a primary contact for the sign-up process.
- User IDs for each individual in the lender's organization who will utilize GUS will be obtained from the USDA eAuthentication website at: <http://www.eauth.egov.usda.gov/eauthCreateAccount.html>. Access to GUS requires a Level 1 account. A Level 1 account allows customers limited access to a USDA website portal. GUS is a web-based underwriting environment on a USDA website.

- The Rural Development office will collect information and email addresses regarding users from the lender to confirm the point of contact.
- Once collected, the local Rural Development office will request a “GUS Starter Pack” be mailed to the lender from National Office.
- A “GUS Starter Pack” is forwarded to the lender by National Office.
- The lender assigns Security Administrator(s) to their organization.
- Security Administrator(s) create a Level 1 account at the following website, also noted above: <http://www.eauth.egov.usda.gov/eauthCreateAccount.html>.
- A computer generated message will be received by the Security Administrator prompting them to respond and activate the ID they have created. Security Administrators must respond within 7 days of the email received.
- The Security Administrator(s) eAuthentication ID is recorded on the User Agreement.
- The documentation identified in the “GUS Starter Pack” is forwarded by the lender to the St. Louis Deputy Chief Finance Officer (DCFO) for activation and access to GUS.
- DCFO will activate the lender’s access to GUS and notify the Security Administrator(s) of activation.
- Users within the lender’s organization will obtain a Level 1 eAuthentication ID and provide their activated ID to the Security Administrator(s).
- Security Administrator(s) will assign roles and responsibilities to users of their organizations through special access as Security Administrator they have to the Application Authorization Security Management website.
- Users will access GUS at the following website: https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp. Select “Guaranteed Underwriting System (GUS)”.

We anticipate an online sign-up process in the near future. Additional information regarding the online process will be communicated when developed.

Education and Training

Online training is available at: https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp. Select the “Training and Resource Library” link for valuable courses regarding eAuthentication and utilizing GUS. Lenders and Agency staff are encouraged to complete the training

Help Center

Assistance regarding GUS related eAuthentication and functionality issues can be referred to the Help Desk (HD) at the following contacts:

- Call 1-800-457-3642 utilizing Option 2 on the first and second menu items. Callers must utilize these options to reach the Rural Development help desk.
- Email questions to servicedesk-stl@stl.usda.gov.

Lenders and employees may obtain assistance from HD. Program related questions will continue to be referred to Rural Development SFHGLP State Coordinators or National Office.

Additional Resources

The GUS Lender Guide is available online on the navigation toolbar while online with GUS or at the Training and Resource Library link at:
https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp.

RD Instruction 1980-D and related Administrative Notices (AN) that supplement standard guidelines are available online at: <http://www.rurdev.usda.gov/regs/>. To navigate the regulation website easily, it is suggested that users utilize the *search* capability of the website and request documents related to *1980-D*.

Any questions concerning this AN should be addressed to National Office personnel Dean Daetwyler, Debbie Terrell, or Kris Zehr, at (202) 720-1452. Their respective email addresses are dean.daetwyler@wdc.usda.gov, debra.terrell@wdc.usda.gov, and Kristine.zehr@wdc.usda.gov.

RD AN No. 4335 (1980-D)
February 28, 2008

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors
Guaranteed Rural Housing Specialists
Area Directors and Area Specialists

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Refinancing of Section 502 Direct Loans with Section 502 Guaranteed
Loans

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to renew instruction to field staff involved in the Single Family Housing Guaranteed Loan Program (SFHGLP) of the process used to refinance Direct loans to SFHGLP loans. A separate AN is being issued to address the requirements for refinancing an existing SFHGLP loan with a new SFHGLP loan.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 4238 (1980-D) dated February 2, 2007. The requirement to submit Form AD-1048 "Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion – Lower Tier Covered Transactions" has been removed because the form contents have been combined in the revised Form RD 1980-21 "Request for Single Family Housing Loan Guarantee." Additionally, the provision that only refinancing transactions are eligible to exceed 100 percent Loan-To-Value (LTV) by the amount of the guaranteed fee has been removed because the same provision now applies for purchase transactions. The amount of the fee differs between refinance and purchase transactions.

EXPIRATION DATE:
March 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D and section 502(h) of the Housing Act of 1949, the following summarizes the requirements for a Direct loan being refinanced:

Term

Term of the loan will be 30 years.

Interest Rate

- Interest rate of the new loan must be a fixed rate and cannot exceed the interest rate of the loan being refinanced. In addition, the interest rate of the new loan does not have to meet requirements established in RD Instruction 1980-D, section 1980.320.
- Funded buydown accounts, as defined in RD Instruction 1980-D, section 1980.392, are not permitted.

Security

Loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.

Household Income

Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.

Approved SFHGLP Lender

An approved SFHGLP lender must make the loan.

Section 502 Leveraged Loans

The SFHGLP program may not be used to refinance Leveraged Loans. Leveraged Loans are loans from a non-Rural Development source closed simultaneously with a 502 direct loan. The private sector lender takes a first lien; Rural Development takes a second lien on the same property. Because the first lien is not funded or guaranteed by Rural Development, the Leveraged Loan may not be refinanced with a guaranteed section 502 loan.

Loan Amount Limitations

- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts.
- Applicants are not eligible to receive "cash out" from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinancing transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of "cash out" to the

applicants may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.

- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinated to the new first lien.

Rural and Non-Rural Areas

SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Applicant Eligibility

As part of the refinancing transaction, additional borrowers may be added to the new SFHGLP loan or existing borrowers may be deleted from the current Direct loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.

Processing Requirements

The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except where provided otherwise in this AN.

When the Agency has determined that a 502 Direct borrower may be eligible to refinance with private credit, the option to attempt refinancing with a SFHGLP loan may be offered to the borrower. It will be the option of the borrower to contact a SFHGLP lender or pursue other refinancing credit.

Reservation of Funds

After the lender has determined that a 502 Direct borrower will likely qualify for a SFHGLP refinance loan, the lender should request a reservation of funds to ensure that funds will be available at the time the loan is ready for final loan approval. Field staff will reserve funds upon receipt of Form RD 1980-86, “Request for Reservation of Funds” from the lender, and funds will remain reserved for 60 days.

Loan Application Documentation

Application and verification requirements of RD Instruction 1980-D, section 1980.353(c) and (e) apply, except for that portion of paragraph (c)(4) that deals with maximum interest rate and paragraph (c)(16) (purchase agreement). The following items must be addressed or documented in the lender’s loan file in order for the application to be considered complete:

- Signed copy of the final loan application.
- Current credit report.
- Any late mortgage payments within the past 36 months on the existing 502 Direct loan must be addressed by the lender and taken into consideration in the underwriting decision.
- Lender verification of applicant’s current employment and income.

- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced. Ratios must meet requirements as stated in RD Instruction 1980-D, section 1980.345(c)(3). The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of acceptable compensating factors. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.
- Applicants sign all applicable RD forms including Form RD 1980-21, "Request for Single Family Housing Loan Guarantee".
- Complete appraisal report. The appraisal report will be used to determine any recapture amount due and payable.
- No property inspections or thermal certifications are necessary. Although Rural Development does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Using Guaranteed Underwriting System (GUS) for Processing of Refinancing Applications

All loans are eligible for processing through GUS. Loans that receive an "accept" message will only require the following documents submitted to the Agency:

- A complete Federal National Mortgage Association (FNMA) Form 1004 or Freddie Mac Form 70, "Uniform Residential Appraisal Report" (URAR) or its equivalent for condominiums or manufactured housing if required under the documentation requirements of this Administrative Notice; and,
- Form RD 1980-21, "Request for Single Family Housing Loan Guarantee". The form should be duly completed and executed by the lender and borrower.
- Loan which receive a "refer" or a "refer with caution" message will have full documentation submitted as outlined above (Loan Application Documentation).

Submission Process

Once the lender has obtained all required documentation and completed underwriting and approval of the loan, the lender will submit the loan application package for Agency review. The Agency will review applications to determine that all program requirements have been met.

Use of SFHGLP funds for the sole purpose of refinancing an existing 502 Direct loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G, section 1940.310(e)(2). In accordance with RD Instruction 1940-G, section 1940.317(c)(4), completion of Form RD 1940-22, "Environmental Checklist for Categorical Exclusions," will typically not be required because refinance transactions will not likely have the potential to adversely effect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the

Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.

Following Rural Development approval, funds will be obligated and a Conditional Commitment issued.

Recapture

As part of the Direct loan refinancing, arrangements must be made to either pay off or defer repayment of any subsidy recapture due. Any recapture amount owed as part of the 502 Direct loan payoff may be included into the amount being refinanced with the SFHGLP loan as part of the loan balance. Alternatively, any 502 Direct recapture amount owed at the time of refinancing may be deferred if the recapture amount takes a lien position subordinate to the new SFHGLP loan. A 25 percent discount on recapture may be offered if the customer does not defer recapture in accordance with 7 CFR, section 3550.162 or includes the recapture amount being refinanced with the SFHGLP loan.

Closing Costs and Lender Fees

As stated in RD Instruction 1980-D, section 1980.324(a), the lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to insure that applicants are not being charged excessive fees as part of the new loan. Discount points are not eligible to be financed, except for low-income borrowers under RD Instruction 1980-D, section 1980.310(d). In such cases, discount points financed will not exceed two percentage points of the loan amount.

Guarantee Fee

The guarantee fee for SFHGLP refinances will be 0.5 percent. The guarantee fee may be financed into any SFHGLP refinancing loan. As usual, applicants may finance closing costs and fees up to 100 percent of the current appraised value. However, it is possible that the LTV of the new loan could exceed 100 percent if the guarantee fee is financed. Loans may only exceed 100 percent LTV to the extent that the excess represents a financed guarantee fee.

Loan Note Guarantee Issuance Requirements

Once the lender has closed the loan, closing documentation should be submitted to the Agency in accordance with RD Instruction 1980-D, Section 1980.361(a). The Agency should verify that the Section 502 Direct liability has been satisfied and that any recapture owed has been paid or deferred as a subordinate lien. Provided that the lender's closing documentation is adequate, a Loan Note Guarantee will be issued to cover the terms of the new loan. The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for closing SFHGLP purchase loans.

Guaranteed Loan System (GLS) Reporting

All SFHGLP refinance loans will be coded “**326**”, the same code currently used for SFHGLP purchase loans. This coding will permit funds to be obligated from one funding source through the remainder of the fiscal year.

Funding Limitations

There will be no limit placed on the number of refinance loans made from the total allocation at this time. However, overall funding availability will be monitored closely to ensure that ample funds will be available for both purchase and refinance loans.

Summary:

The intent of the refinance feature of the SFHGLP loan program is to give 502 Direct customers, who are ready to graduate into private credit, the opportunity to benefit from SFHGLP loan program parameters and lower interest rates or lower monthly mortgage payment. Applicants must meet all existing eligibility requirements as stated in RD Instruction 1980-D.

Questions regarding this AN may be directed to Michelle C. Corridon, michelle.corridon@wdc.usda.gov or Joaquín Tremols, joaquin.tremols@wdc.usda.gov or at 202-720-1452.

RD AN No. 4336 (1980-D)
February 28, 2008

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors
Guaranteed Rural Housing Specialists
Area Directors, and Area Specialists

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Refinancing of Single Family Housing Guaranteed Loans

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to renew instruction to field staff involved in the Single Family Housing Guaranteed Loan Program (SFHGLP) of the process used to refinance existing SFHGLP loans. A separate AN is being issued to address the renewal requirements for refinancing an existing 502 Direct loan with a new SFHGLP loan.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 4239 (1980-D) dated February 2, 2007. The requirement to submit Form AD-1048 "Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion – Lower Tier Covered Transactions" has been removed because the form contents have been combined in the revised Form RD 1980-21 "Request for Single Family Housing Loan Guarantee." Additionally, the provision that only refinancing transactions are eligible to exceed 100 percent Loan-To-Value (LTV) by the amount of the guaranteed fee has been removed because the same provision now applies for purchase transactions. The amount of the fee differs between refinance and purchase transactions.

EXPIRATION DATE:
March 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D and section 502(h) of the Housing Act of 1949, the following summarizes the requirements for the SFHGLP loan being refinanced:

Term

Term of the new loan will be 30 years.

Interest Rate

- Interest rate of the new loan must be a fixed rate and cannot exceed the interest rate of the loan being refinanced. The interest rate of the new loan does not have to meet requirements established in RD Instruction 1980-D, section 1980.320.
- Funded buydown accounts are not permitted.

Security

Loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.

Household Income

Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.

Approved SFHGLP Lender

An approved SFHGLP lender must make the loan.

Loan Amount Limitations

- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts.
- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien.
- Applicants are not eligible to receive “cash out” from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.
- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.

Rural and Non-Rural Areas

SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Applicant Eligibility

As part of the refinancing transaction, additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.

Processing Requirements

The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this AN.

Reservation of Funds

After the lender has determined that an applicant will likely qualify for a guaranteed refinance loan, the lender or originator should request a reservation of funds to ensure that funds will be available at the time the loan is ready for final loan approval. Field staff will reserve funds upon receipt of Form RD 1980-86, "Request for Reservation of Funds" from the lender, and funds will remain reserved for 60 days.

Loan Application Documentation

Application and verification requirements of RD Instruction 1980-D, section 1980.353(c) and (e) apply, except for that portion of paragraph (c)(4) that deals with maximum interest rate and paragraph (c)(16) (purchase agreement). The following items must be addressed or documented in the lender's loan file in order for the application to be considered complete:

- Signed copy of the final loan application.
- Current credit report.
- Any late mortgage payments within the past 36 months on the existing SFHGLP loan must be addressed by the lender and taken into consideration in the underwriting decision.
- Lender verification of applicant's current employment and income.
- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced. Ratios must meet requirements as stated in RD Instruction 1980-D, section 1980.345(c)(3). The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of acceptable compensating factors. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.

- Applicants will sign all applicable RD forms including Form RD 1980-21, “Request for Single Family Housing Loan Guarantee”.
- Notwithstanding RD Instruction 1980-D, section 1980.334 requirements, a complete appraisal report will be required only in cases when any accrued interest, closing costs and/or lender fees will be financed into the loan.
- No property inspections or thermal certification are necessary. Although Rural Development does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Using Guaranteed Underwriting System (GUS) for Processing of Refinancing Applications

All loans are eligible for processing through GUS. Loans that receive an “accept” message will only require the following documents submitted to the Agency:

- A complete Federal National Mortgage Association (FNMA) Form 1004 or Freddie Mac Form 70, “Uniform Residential Appraisal Report” (URAR) or its equivalent for condominiums or manufactured housing, if required under the documentation requirements of this Administrative Notice; and,
- Form RD 1980-21, “Request for Single Family Housing Loan Guarantee”. The form should be duly completed and executed by the lender and borrower.

Loan which receive a “refer” or a “refer with caution” message will have full documentation submitted as outlined above (Loan Application Documentation).

Submission Process

After underwriting and approval of the loan, the lender will submit the loan application package for Agency review. The Agency will review applications to determine that all program requirements have been met.

Use of SFHGLP funds for the sole purpose of refinancing an existing 502 Guaranteed Loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G, section 1940.310(e)(2). In accordance with RD Instruction 1940-G, section 1940.317(c)(4), completion of Form RD 1940-22, “Environmental Checklist for Categorical Exclusions,” will typically not be required because refinance transactions will not likely have the potential to adversely effect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.

Following Rural Development approval, funds will be obligated and a Conditional Commitment issued.

Closing Costs and Lender Fees

As stated in RD Instruction 1980-D, section 1980.324(a), the lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to ensure that applicants are not being charged excessive fees as part of the new loan. At this time, discount points are not eligible to be financed, except for low-income applicants. In such cases, discount points financed will not exceed two percentage points of the loan amount.

Guarantee Fee

The guarantee fee for SFHGLP refinances will be 0.5 percent. The guarantee fee may be financed into any SFHGLP refinancing loan. As usual, applicants may finance closing costs and fees up to 100 percent of the current appraised value. However, it is possible that the LTV of the new loan could exceed 100 percent when the guarantee fee is financed. Loans may only exceed 100 percent LTV to the extent that the excess represents a financed guarantee fee. A new appraisal is not required when the amount to be refinanced is limited to the outstanding loan balance plus the guaranteed fee.

Loan Note Guarantee Issuance Requirements

Once the lender has closed the loan, closing documentation should be submitted to the Agency in accordance with RD Instruction 1980-D, section 1980.361(a). Provided that the lender's loan closing documentation is adequate, a Loan Note Guarantee will be issued to cover the terms of the new loan. The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans. Once the Agency's loan closing has processed and the new Loan Note Guarantee has been issued, the Finance Office should be notified to terminate the original guarantee due to the loan being refinanced through the SFHGLP program. Notifications should be made to the Finance Office, Guaranteed Loan Branch, Attn: FC-350 or by Fax at (314) 457-4279.

Guaranteed Loan System (GLS) Reporting

All SFHGLP refinance loans should be coded with assistance code **"326"** (SFHGLP purchase loans should be coded "96").

Funding Limitations

There will be no limit placed on the number of refinance loans made from the allocation at this time.

SUMMARY:

The intent of the new refinance feature of the SFHGLP loan program is to give existing SFHGLP borrowers with satisfactory payment histories the opportunity to benefit from a lower interest

rate and increase their ability to be successful homeowners. Applicants must meet all existing eligibility requirements as stated in RD Instruction 1980-D. The Agency should give applicants with existing SFHGLP loans that are in good standing every consideration when applying for a SFHGLP refinance loan. SFHGLP refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not remaining current on their existing SFHGLP loan. Delinquent SFHGLP loans should be reviewed and evaluated using the loan servicing guidelines currently outlined in RD Instruction 1980-D, section 1980.370 and current Administrative Notices.

Questions regarding this AN may be directed to Michelle C. Corridon, michelle.corridon@wdc.usda.gov or Joaquín Tremols, joaquin.tremols@wdc.usda.gov or at 202-720-1452.

RD AN No. 4345 (1980-D)
March 28, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists, and
Area Directors, and Area Specialists

FROM: Russell T. Davis
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Applicant Traditional and Nontraditional Credit History
Verification

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the forms of credit history and current debt verifications acceptable for loans guaranteed under the Single Family Housing Guaranteed Loan Program (SFHGLP).

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4268 dated April 19, 2007. This AN further supplements RD Instruction 1980-D to clarify guidelines and standards for nontraditional credit history applicants.

EXPIRATION DATE:
March 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

An essential component to mortgage lending is to determine current debt payments a loan applicant is obligated to make, evaluate the applicant's credit history, and establish the applicant's willingness and ability to repay the additional credit obligation represented by the home mortgage loan.

Information lenders use to make applicant credit evaluations is typically obtained from one of the following sources:

- **In-File Credit Reports:** An in-file credit report is issued by one credit repository or credit reporting agency. It contains "as is" information as of the last date reported by the credit grantor subscribing or reporting to the credit repository. No information is updated or re-verified by the credit repository as a result of the mortgage credit inquiry. A minimum of two credit repository reports is required for Rural Development purposes.
- **Merged, Tri-Merged, or Multi-Merged Credit Reports (MMCR):** A MMCR is issued by a credit repository or consumer reporting agency and includes the in-file credit report information from at least two credit repositories. Merged credit reports are also known as tri-merge credit reports if the merged report contains in-file credit report information from three credit repositories (Equifax, Experian, and TransUnion).

The MMCR must identify all the credit repositories whose information was merged into the report. The credit information from each credit repository may be presented in its entirety on the MMCR, or the reporting agency may eliminate duplicate records through an automated merge process. Duplicate information need not be repeated. However, if the duplicate information is not exactly the same on each report, the MMCR must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

The MMCR, in effect, is an adaptation of the Residential Mortgage Credit Report (RMCR). Information supplied on an RMCR, which is not on a MMCR (i.e. income and employment verification), is obtained and verified independently by lenders under current procedures.

- **Residential Mortgage Credit Reports:** A RMCR contains merged credit information from at least two national repositories. The consumer reporting agency or bureau supplying the RMCR typically uses its best efforts to re-verify accounts directly with creditors. The consumer reporting agency also attempts to verify the applicant's employment and residence history. The consumer reporting agency interviews the applicants when the lender has incomplete information or when it discovers information that indicates the possible

existence of undisclosed credit obligations or public records.

NONTRADITIONAL CREDIT

The current mortgage market and ongoing evaluation of loan performance prompts Rural Development to provide guidance, which supplements RD Instruction 1980-D, for applicants who do not have a traditional credit history and rely upon nontraditional credit sources to qualify for a mortgage loan.

Nontraditional credit presents unique risk characteristics and possible misrepresentation challenges in accessing the borrower's ability and willingness to repay the proposed mortgage obligation.

A recent SFHGLP portfolio review of non-traditional credit loans and those with credit scores of 619 and below supports a thorough evaluation prior to extending mortgage credit:

- FICO score 619 and below:
 - * 17% of SFHGLP portfolio
 - * 39% of program losses
- No FICO score:
 - * 6% of SFHGLP portfolio
 - * 16% of program losses

Lenders may rely upon the following methods to verify nontraditional credit histories:

- Non-Traditional Mortgage Credit Reports (NTMCR): A NTMCR is designed to assess the credit history for borrowers without the types of trade references normally appearing on a credit report. NTMCRs are typically used for those prospective borrowers who have not yet established a credit history or who do not use traditional credit. A NTMCR may be used as a substitute for a RMCR or MMCR, for borrowers without a credit history through traditional credit grantors, or to supplement RMCR's or MMCR's that do not have sufficient traditional credit references reported. **A NTMCR may not be used to enhance the traditional credit history of borrowers with poor payment records.**

Rural Development will accept reports by various providers who develop bill payment histories, which may also include a score. Rental history, utility trade lines, and other non credit reporting debts may be verified through this third party service. The bill payment score is not a substitute for a FICO score, however it will lend credibility to the nontraditional tradelines verified.

While a NTMCR from a consumer reporting agency is preferred, a lender may develop its own nontraditional credit history for a proposed applicant. In either case, at least three (3) non-traditional credit references should be developed. The following guidelines are provided to assist lenders in creating their own nontraditional credit histories:

- Additional layers of risk are not advised for applicants who rely on nontraditional credit references.
- Payments made to relatives for credit sources (i.e. personal loans) are not eligible non-traditional credit references.
- Nontraditional credit may not be used to offset derogatory references found in the borrower's traditional credit information, such as late payments, collection accounts, and judgments.
- Rent or housing payment history should be given the most consideration when evaluating nontraditional credit histories. Cancelled checks or money order receipts over the past 12 months should be provided as proof of timely payment. Rental references from management companies with a payment history over the past 12 months may be used in lieu of cancelled checks.
- In addition to rent or housing payment history, a 12 month payment record from the following are acceptable sources lenders may verify to prove the applicant's ability and willingness to meet debt obligations:
 - Utility payment records (if utilities were not included in the rental payment) including gas, electricity, water, or telephone cell phone service, cable TV, etc.
 - Insurance payments (excluding those paid through payroll deductions) including medical, automobile, life, household, or renter's insurance
 - School tuition
 - Payments to retail stores (i.e. department, furniture, appliance stores, specialty stores, etc.)

Acceptable verification for proof of payment includes canceled checks, money order receipts, and written verification from independent third parties (not relatives). Written verification should include creditor name, date the account was opened, balance of that account, monthly payment, and payment history reported in 0x30, 0x60, etc. format. Subjective statements should not be used to verify payment history such as "satisfactory" or "acceptable".

- Only one 30 day delinquency is allowed on one nontraditional credit reference within the last 12 months

- 60 and 90 day delinquencies, and reports of disconnect notices are not acceptable

An additional non-traditional credit reference includes documenting the applicant's ability to make steady periodic savings deposits over a 12 month period accumulating a cash reserve of at least 2 months worth of housing expense payments.

IMPLEMENTATION RESPONSIBILITIES:

Rural Development staff reviewing requests for guarantees under the SFHGLP should accept MMCRs, NTMCRs, RMCRs, and lender prepared nontraditional credit histories which contain sufficient information as outlined for purposes of RD Instruction 1980-D, section 1980.353(e)(4).

RMCRs, MMCRs and NTMCRs that meet the standards of Fannie Mae, Freddie Mac, Housing and Urban Development (HUD) and the Department of Veteran Affairs (VA) are acceptable for Rural Development purposes. In the case of MMCRs, tri-merged reports are preferred because they contain in-file credit report information from three separate credit repositories. Dual-merged credit reports are acceptable only if that is the extent of the data available for the borrower. If only one in-file report is available for the borrower, the lender must obtain an RMCR.

While a MMCR should prove sufficient for processing most loan applications, other circumstances that require ordering a RMCR include:

1. The borrower disputes accounts on the MMCR as belonging to someone else; **or**
2. The borrower claims that collections, judgments, or liens reflected as open on the MMCR have been paid and cannot provide separate documentation supporting this; **or**
3. The borrower claims that certain debts shown on the MMCR have different balances or payments and cannot provide current statements (less than 30 days old) attesting to this fact; **or**
4. The lender's underwriter determines that it would be prudent to utilize a RMCR in lieu of a MMCR to properly underwrite the loan.

Questions regarding this AN should be directed to Joaquín Tremols at (202) 720-1452 or Kristina Zehr at (309) 452-0830 ext. 111. Their respective email addresses are joaquin.tremols@wdc.usda.gov and kristina.zehr@wdc.usda.gov.

RD AN No. 4346 (1980-D)
March 28, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists, and
Area Directors, and Area Specialists

FROM: Russell T. Davis *(Signed by Russell T. Davis)*
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Utilizing Credit Scores for Underwriting Single Family Housing
Guaranteed Loans

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to affirm 620 as the minimum Fair Isaacs & Company (FICO) credit score required for applicants to utilize streamlined documentation for manually underwritten guaranteed loans.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 4237 (1980-D) dated January 25, 2007. This AN includes new guidance for lenders when manually underwriting guaranteed loans with FICO scores below 620 as well as files with no credit scores. References to VantageScore have been removed from this AN, because this credit format is not used within the industry to a great extent and is not acceptable for the Single Family Housing Guaranteed Loan Program (SFHGLP) at this time.

EXPIRATION DATE:
March 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The SFHGLP continues to evaluate both loan performance and the real estate lending environment. SFHGLP loans with FICO scores over 620 historically experience significantly lower defaults than borrowers with scores below 619.

A recent SFHGLP portfolio review of FICO scores of 619 and below supports a thorough evaluation prior to extending mortgage credit:

- FICO score 619 and below:
 - * 17% of SFHGLP portfolio
 - * 39% of program losses
- No FICO score:
 - * 6% of SFHGLP portfolio
 - * 16% of program losses

Lenders should judiciously evaluate and carefully screen the credit histories of applicants with FICO scores of 619 and below for manually underwritten Guaranteed loan files.

IMPLEMENTATION RESPONSIBILITIES:

Selecting FICO Scores

The FICO score of the primary wage earner should be given the most emphasis; however FICO scores of other applicants should not be ignored. When reviewing appropriate credit reports select the correct FICO score for underwriting per these guidelines:

Three scores: Select the middle score

Two scores: Select the lowest score

One score: Use that score

No score: Non-traditional credit histories may be accepted

Streamlined Documentation for FICO Scores of 620 or Higher

For loan applications that contain co-applicants, each applicant must have a FICO score of 620 or higher to qualify for streamlined documentation.

- A lender shall not be required to document adverse credit history waivers under RD Instruction 1980-D, section 1980.345(d), (referenced below in this AN) except for those involving a delinquent Federal debt or previous Agency loan.
- A lender shall not be required to document applicant rent payment history.

- No action will be necessary for any derogatory items, such as those outlined in RD Instruction 1980-D, section 1980.345(d), except for those involving a delinquent Federal debt or previous Agency loan.

Note that each applicant is treated separately. If the applicant has a score higher than 620 and the co-applicant has a score lower than 620, then the applicant qualifies for streamlined documentation but the co-applicant's credit history should be carefully examined.

FICO scores are calculated based upon credit information reported to the credit bureaus, therefore lenders and Agency staff can be confident that FICO scores of 620 and higher represent acceptable credit histories.

Applicants with FICO Scores of 619 and below

Based upon the portfolio review of SFHGLP loans, applicants with FICO scores of 619 and below have a statistically higher likelihood of default. This does not mean applicants with FICO scores of 619 and below are poor credit risks and should be categorically rejected. Many loans in this category are paid as agreed. However, underwriters should be especially cautious of layered risks in addition to the lower credit score which include but are not limited to:

- **Adverse credit history waivers:** Approved by the lender
If the lender approves an adverse credit waiver for any instance of derogatory credit as outlined in RD Instruction 1980-D, section 1980.345(d), **the lender must secure documentation evidencing that the circumstances surrounding the adverse information were temporary in nature, and were beyond the applicant's control, and have been removed so their reoccurrence is unlikely.** Alternately, the lender must secure documentation evidencing that the delinquency arose from a justifiable dispute related to defective goods or services.
- **Ratio waivers:** Requested by the lender, approved by Rural Development Ratio waivers should be avoided unless strong compensating factors are present (i.e. Principal, Interest, Taxes and Insurance (PITI) is comparable to current housing, conservative user of credit, strong job history, demonstrated ability to accumulate reserves, etc.)
- **Payment Shock:** Approved by the lender
Lenders should be cautious when applicants have no rent or housing history to verify, or the proposed PITI is 100% or greater than current rent or housing expense.

- **Questionable repayment income or job stability:** Approved by the lender The lender is responsible for calculating income and documenting the loan file.
 - Applicants with commission only positions or widely varying amounts of overtime and bonus income may not exhibit enough adequate or stable monthly income to qualify.
 - Applicants with gaps in their employment histories may not exhibit enough dependable or stable monthly income to qualify.

Rent History Verification

Lenders are required to obtain a Verification of Rent (VOR) when available for all applicants with FICO scores of 619 and below. A 12 month history is most desired, however any length of payment history should be considered. Written verifications are preferred, but 12 months of cancelled checks covering the most recent 12 month period will also indicate a satisfactory payment history.

Applicants with FICO scores of 580 and below

Loans with FICO scores of 580 and below are very high risk and tend to exhibit a much higher rate of default. Lenders should not approve loans with FICO scores of 580 and below if they exhibit any of the indicators of unacceptable credit per RD Instruction 1980-D, section 1980.345(d) which include:

- One or more debt payments being 30 days late within the last 12 months
- Foreclosure discharged less than 36 months
- Outstanding tax liens or delinquent government debts with no payment arrangements, currently due
- Outstanding judgments within the last 12 months
- Two or more rent payments 30 days late within the last 3 years
- Accounts converted to collections within the last 12 months
- Outstanding collection accounts with no payment arrangements that are currently due
- Bankruptcy discharged less than 36 months

Extraordinary compensating factors must be present to warrant a lender to issue an adverse credit waiver for applicants with FICO scores of 580 and below. Additional risk layering in addition to the lower score is not recommended.

SUMMARY

Loan performance and current market conditions reveal a need to revisit acceptable parameters for SFHGLP loans. FICO scores are excellent indicators of acceptable credit, however the FICO score alone does not always give an accurate indication of an applicant's ability and willingness to repay a mortgage loan. Loan records must contain sufficient justification by the underwriter for approving the loan. The Uniform Underwriting Transmittal Summary is a good place to document this justification. The analysis should include an assessment of any compensating factors, or credit history explanations that establish the applicant's ability and willingness to repay the proposed loan as agreed. SFHGLP loans that are rejected by lenders based on underwriting risk should be rejected based on lack of repayment ability, lack of adequate and dependable income, inadequate credit history, or collateral that does not meet the required standards.

Lender Monitoring

On an ongoing basis, Agency field staff should monitor originating lenders for adherence to SFHGLP loan underwriting requirements, including the standards outlined in this AN. Field staff conducting lender origination monitoring reviews should pay special attention to credit scores when reviewing first year delinquencies and early defaults.

Questions regarding this AN may be directed to Joaquin Tremols at (202) 720-1452 or Kristina Zehr at (309) 452-0830 ext. 111. Their respective email addresses are joaquin.tremols@wdc.usda.gov and kristina.zehr@wdc.usda.gov.

RD AN No. 4363 (1980-D)
May 2, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Area Directors, and Area Specialists

FROM: Russell T. Davis *(Signed by Peter Morgan)* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program Acceptable
Alternative Documentation to Verify the Applicant's
Employment Income

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the acceptable forms of employment income verifications for loans guaranteed under the Single Family Housing Guaranteed Loan Program (SFHGLP). The Rural Housing Service (RHS) will accept verification methodologies similar to those currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies.

This AN only addresses verification of employment and income documentation for non-self-employed applicants. Documentation requirements for other types of income (e.g., self-employment, disability, child support income, etc.) are unchanged by this AN.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4269 (1980-D) dated April 19, 2007.

EXPIRATION DATE:
April 30, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Two separate but equally essential components to the Single Family Housing Guaranteed Loan Program require the Lender to determine:

1. The applicant's adequate and dependable income. This income figure is used to determine the applicant's repayment ability. RD Instruction 1980-D, section 1980.345(b)
2. The applicant's adjusted annual income. This income figure is used to determine eligibility for the RHS loan guarantee. (RD Instruction 1980-D, section 1980.347)

Traditionally, written documentation from third parties has been the preferred method of verifying information. The Lender has been required to verify the applicant's current, year-to-date (YTD), and previous year's employment earnings by obtaining:

- Form RD 1910-5, "Request for Verification of Employment" (or equivalent form), and;
- Copies of the applicant's three most recent paycheck stubs (to check for consistency with the information in the employer verification).

However, over the past several years, the residential mortgage industry, secondary markets, and other Federal agencies have determined that in most cases, alternative, applicant-provided documentation provides accurate and sufficient information regarding the applicant's employment income. The use of alternative, applicant-provided documentation increases the efficiency of the mortgage origination process resulting in savings of both time and money.

A lender that chooses to use alternative documentation must obtain documentation sufficient to provide a complete picture of the applicant's financial situation, and apply the same stable and dependable income qualification criteria regardless of the type of income verification documentation used.

DOCUMENTATION:

The following documentation is deemed acceptable for verifying the employment income of non-self-employed loan applicants:

- ◆ Form RD 1910-5, "Request for Verification of Employment," (or the equivalent HUD/FHA/VA or Fannie Mae form), and the most recent paycheck stub
or
- ◆ Paycheck stubs or payroll earnings statements covering the most recent 30-day period, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment
or
- ◆ Electronic verification or other computer-generated documents accessed and printed from an Intranet or Internet, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment.

The Following guidance is provided regarding employment income verification documents used by Lenders.

The **Verification of Employment (VOE) form** must be:

- Signed by the applicant or accompanied by an authorization for a release of information form signed by the applicant.
- Sent directly to the employer by the Lender.
- Completed by the employer and returned to the Lender directly without passing through the hands of a third party or the applicant.
- Completed within 120 days (180 days for proposed new construction) prior to the time Form RD 1980-18, “Conditional Commitment for Single Family Housing Loan Guarantee,” is issued.

We recommend that the lender obtain at least one paycheck stub to check for consistency with the VOE form.

Some employers routinely leave certain portions of the VOE form blank; e.g., item #11 relating to probability of continued employment. The verification may still be valid even if certain information is omitted. The lender must underwrite the loan application and be able to make the determination that the applicant has adequate and dependable income. The lender must disapprove the application if the applicant’s loan repayment ability cannot be determined or is not acceptable.

The **paycheck stub or payroll earnings statement** should:

- Be the original computer-generated or typed document. (The original paycheck stubs or payroll earnings statements may be returned to the applicant after the Lender has made clear, certified true copies for the Lender’s mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.)
- Be the most recent as of the date the initial loan application is made.
- Clearly identify the applicant as the employee by name and/or social security number.
- Clearly identify the identity of the employer.
- Show the applicant’s gross earnings for that pay period and year-to-date.

The lender should obtain paycheck stubs or payroll earnings statements covering the most recent 30-day period. If the paycheck stubs do not contain year-to-date earnings information, this may require 2-4 paycheck stubs. If a paycheck stub contains year-to-date earnings reflecting more than 30 days of earnings, the most recent paycheck stub by itself may be accepted as covering the most recent 30-day period. Paycheck stubs covering the most recent 30-day time period allow the lender to properly underwrite the loan application using alternative documentation.

If the applicant’s paycheck stub or payroll earnings statement does not contain all of the information required; e.g., gross year-to-date earnings, the lender should attempt to obtain this information in the telephone verification with the applicant’s employer.

The **W-2 forms** should:

- Be the original, computer-generated or typed, employee copies provided by the employer. The original W-2 forms may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.
- Cover the 2 most recent tax years.
- Not contain any alterations, erasures, or corrections.

The **telephone verification** should be substantiated by a written document that shows:

- Contact was made within 120 days of loan closing (180 days for proposed new construction).
- Employer/company name, address and phone number.
- Employer's contact person and title.
- Applicant's name, date of employment and present position.
- Probability of continued employment.
- Amount of current base pay.
- Amount of other income such as overtime, bonus, commissions, etc.
- Likelihood that the level of current earnings will continue.
- Name and title of Lender's employee that contacted the employer.

Some employers will not release certain detailed information over the telephone, for example, amount of current earnings. This is acceptable provided the paycheck stubs or payroll earnings statements contain this information.

Also, the telephone verification can be used to supplement the written documentation when the written documentation is not clear, or incomplete.

The **electronic verification** or other computer-generated document accessed and printed from an Intranet or Internet should:

- Cover the most recent pay period as of the date the initial loan application is made.
- Clearly identify the applicant as the employee by name and/or social security number.
- Show the applicant's gross earnings for the most recent 30-day period and year-to-date.

THIRD-PARTY EMPLOYMENT VERIFICATION SERVICES:

RD Instruction 1980-D, section 1980.309(f) allows lenders to use other institutions in carrying out their responsibility to obtain verification of an applicant's employment and income.

In order to be acceptable to RHS, the automated verification must provide essentially the same detailed employment and income information that is normally obtained using the VOE form, including year-to-date and previous year's pay history. This level of verification is often referred to as a "full verification."

We know of several companies that obtain information directly from participating employers in order to provide lenders with employment and income verifications, including:

- The Work Number®. (<http://www.theworknumber.com>)
- Jon-Jay Associates, Inc. (<http://www.jonjay.com/jonjay/evs.php>)
- National Credit Reporting System (<http://ncstrv.com>)

SUMMARY:

The Lender is responsible for the sufficiency, integrity and accuracy of the underwriting documents. The documents should be clear and legible, be free of any indications that changes have been made, and provide consistent information.

Lenders successfully using alternative documentation have shared the following ideas:

- Use the items on the VOE form as a “checklist” to ensure that all of the required information has been obtained.
- Develop and use a standard telephone confirmation form to ensure that all required information is collected.
- Independently confirm (by using the telephone book, calling directory assistance, etc.) the employer’s telephone number. Not only is this practice effective in guarding against misrepresentation, the lender will often have more success by directly contacting the employer’s payroll or human resources office (as compared to the applicant’s supervisor.)
- During the telephone call to the employer, offer to fax the employer a copy of the form signed by the applicant authorizing the employer to release information to the lender.
- If the employer will not answer all of the lender’s questions, ask if they will confirm (rather than release) information that the applicant has already provided to the lender. Offer to fax the employer a copy of the payroll earnings statement to confirm its authenticity.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of this Administrative Notice, Agency employees reviewing requests for guarantees under the Single Family Housing Guaranteed Loan Program should accept documentation meeting the above requirements for verification purposes under RD Instruction 1980-D, section 1980.353(e).

Agency employees will review selected Guaranteed Underwriting System (GUS) Loans to ensure that Lenders are obtaining sufficient documentation to accurately calculate applicant income. Refer to the State Compliance Review Guide for details. Agency employees are encouraged to be flexible and to use their best judgment when deciding whether the documentation provided by the Lender is acceptable.

State Offices having questions regarding this AN should contact Joaquín Tremols or David Chaput at (202)720-1452. Their respective email addresses are joaquin.tremols@wdc.usda.gov or david.chaput@wdc.usda.gov.

RD AN No. 4364 (1980-D)
May 7, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Area Directors, and Area Specialists

FROM: Russell T. Davis *(Signed by Peter Morgan)* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Existing Dwelling Inspection Requirements;
Acceptable Origination Appraisal Forms

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the forms of dwelling inspections acceptable for loans guaranteed under the Single Family Housing Guaranteed Loan Program (SFHGLP).

The intended outcome of this AN is to restate that the SFHGLP accepts appraisals prepared by Federal Housing Administration (FHA) roster appraisers in accordance with Housing and Urban Development (HUD) Handbooks 4150.2 and 4905.1 as meeting the inspection requirements of RD Instruction 1980-D, section 1980.341(b)(1)(i).

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4260 (1980-D) dated March 29, 2007.

EXPIRATION DATE:
April 30, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The basic objective of the SFHGLP is to assist eligible rural households in obtaining adequate, decent, safe and sanitary homes. To this end, an existing dwelling must be inspected to determine that the dwelling meets the current requirements of:

- HUD Handbook 4150.2, *Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings* (Appraisal Handbook), and
- HUD Handbook 4905.1, *Requirements for Existing Housing-One to Four Family Living Units*.

Notes:

- In June 1999, HUD issued Handbook 4150.2 to replace the appraiser requirements of Handbook 4150.1 REV-1, *Valuation Analysis for Home Mortgage Insurance*. The SFHGLP uses HUD Handbook 4150.2 in place of Handbook 4150.1.
- HUD handbooks and forms can be downloaded over the Internet at <http://www.hudclips.org> or obtained by calling 1-800-767-7468.
- FHA roster appraisers can be identified at <https://entp.hud.gov/idapp/html/apprlook.cfm>.

When prepared in accordance with HUD Handbooks 4905.1 and 4150.2, the appraisal constitutes acceptable documentation to comply with existing dwelling inspections made in accordance with RD Instruction 1980-D, section 1980.341(b)(1)(i). The lender should be careful to select an appraiser familiar with and who can certify that the requirements of HUD Handbooks 4905.1 and 4150.2 have been met.

The appraisal forms that must be used for loan origination purposes under the SFHGLP, are:

- Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70) for one unit single family dwellings;
http://www.freddiemac.com/sell/forms/pdf/70_0305.pdf
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1004.pdf>
- Manufactured Home Appraisal Report and addendum (FNMA Form 1004C/FHLMC Form 70B) for all manufactured homes;
http://www.freddiemac.com/sell/forms/pdf/70b_0305.pdf
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1004c.pdf>
- Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465) for all individual condominium units;
https://www.freddiemac.com/sell/forms/pdf/465_0305.pdf
<http://www.efanniemae.com/sf/formsdocs/forms/pdf/sellingtrans/1073.pdf>

Licensed or certified appraisers that are not FHA roster appraisers can complete these appraisal forms. In such cases, a separate home inspection report prepared by a home inspector deemed qualified by the lender should be obtained. Appraisers who are not on the FHA roster are not approved by FHA to complete appraisals according to HUD Handbooks 4905.1 and 4150.2,

including the appendixes. Nevertheless, lenders may determine that a non-FHA roster appraiser is qualified to perform the home inspection, as long as the lender is assured that the non-FHA roster appraiser is thoroughly familiar with HUD Handbooks 4905.1 and 4150.2. An individual who is not thoroughly familiar with HUD Handbook 4905.1 and 4150.2 should not certify that a property meets all the HUD Handbook standards. Doing so would constitute a misrepresentation. Lenders should be reminded that they are responsible for the acts of their agents, including appraisers.

In any case where the appraiser certifies that the requirements of HUD Handbooks 4905.1 and 4150.2 have been met, they may do so on page three of the appraisal form, in the “comment” section. Alternately, the appraiser may make their certification in an addendum to the appraisal, or they may use the attached optional form.

Regardless of whether the appraisal is completed by an appraiser on the FHA roster or by a licensed or certified appraiser not on the FHA roster, the lender must obtain documentation for an existing dwelling showing that the following requirements have been met:

- If the property is served by an individual water supply system, the local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards.* (see table below).
- If the property is served by an individual septic system, the septic system must be free of observable evidence of system failure. A FHA roster appraiser, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic system evaluation. The separation distances between a well and septic tank, the drain field, and the property line should comply with HUD guidelines or state well codes.
- For any property in which the lender or FHA roster appraiser is in doubt about the operation of septic systems for the dwelling or in the neighborhood (e.g. if the property is vacant), the local health authority or a septic system professional has determined the viability of the system.
- Any repairs necessary for the dwelling to be structurally sound, functionally adequate, and in good repair must have been completed prior to requesting the Loan Note Guarantee, or the escrow account requirements of RD Instruction 1980-D, section 1980.315 have been met.
- If required by the lender, appraiser, inspector, or State law, a pest inspection has been obtained showing that the property is free of active termite infestation.

A property which an appraiser indicates is in average or good condition may generally be considered in good repair, though repairs may still be required by the lender. Regardless of whether the appraisal is performed by an FHA roster appraiser or not, the appraiser must report all readily observable property deficiencies as well as any adverse conditions discovered performing the research involved in completing an appraisal. When lending to low- and moderate-income borrowers under the SFHGLP, lenders are expected to use professional judgment and rely upon prudent underwriting practices in determining when a property condition requires additional inspections or repairs. Conditions that would warrant additional repairs

include those that pose a threat to the safety of the occupants, jeopardize the soundness and structural integrity of the property; or adversely affect the likelihood of a low- to moderate-income borrower from becoming a successful homeowner.

* The Safe Drinking Water Act does not protect private wells. The rules of the Environmental Protection Agency (EPA) only apply to “public drinking water systems” government or privately run companies supplying water to 25 people or 15 service connections. Most states regulate private household wells, and most health departments, environmental offices, and county governments should have a list of state certified testing laboratories.

Also, EPA’s Safe Drinking Water Hotline, (800) 426-4791, can help in many ways. The Hotline can:

- Provide the name and phone number of your state’s Laboratory Certification Officer.
- Provide the phone number of your state drinking water program.
- Provide a listing of contaminants public water systems must test for.
- Provide health advisories prepared for specific drinking water contaminants.
- Explain the Federal regulations that apply to public water systems.
- Compare individual water supply lab results to the federal standards. These standards can be found at www.epa.gov/safewater/mcl.html.

Under RD Instruction 1980-D, section 1980.334, the cost approach section of the appraisal must be completed in its entirety when the dwelling is less than one year old. For dwellings more than one year old, the cost approach section of the appraisal need be completed only to the extent necessary to comply with the site value analysis and requirements of RD Instruction 1980-D, section 1980.313(e). A Marshall and Swift cost approach analysis is not required.

As in the past, updates to HUD Handbooks 4905.1 or 4150.2 will also be effective for Rural Development purposes. Should HUD replace Handbooks 4905.1 or 4150.2 with another publication, the new publication will become effective for Rural Development purposes.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of RD Instruction 1980-D and this AN, Agency field staff reviewing loan files under the SFHGLP are reminded of the following:

- In order to satisfy the requirements of RD Instruction 1980-D, section 1980.341(b)(1)(i), lenders have the option to choose either:
 - An appraisal performed by an FHA roster appraiser; or
 - An appraisal performed by a licensed or certified appraiser not on the FHA roster and a home inspection by a qualified home inspector.
- This AN does not change the appraisal requirements in RD Instruction 1980-D, section 1980.334.
- Even if the appraiser is on the FHA roster, homebuyers may elect to obtain an independent home inspection to assist them in their home purchase decision.

- In all cases, the appraiser must inspect the interior and exterior of the subject property, and an exterior inspection should be performed for all comparable sales.

Anyone with questions regarding this AN should contact Joaquín Tremols or Dave Chaput at (202) 720-1452 or joaquin.tremols@wdc.usda.gov or david.chaput@wdc.usda.gov.

Attachment

EXISTING DWELLING INSPECTION REPORT
(optional form)

Lender's Name/Address _____

Borrower's Name(s) _____

Property Address _____

Yes____ No____ The dwelling meet's HUD's minimum property standards for existing dwellings as outlined in the HUD Handbooks 4150.2 and 4905.1 (available from HUD ordering Desk (1-800-767-7468).

If no, recommendations:

Date

Signature

Title

RD AN No. 4366 (1980-D)
May 7, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Area Directors and Area Specialists

FROM: Russell T. Davis *(Signed by Peter Morgan)* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Approved Lender Underwriting Guidelines, Debt Ratio
Waivers, Payment Shock, and Collection Accounts

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice is to clarify RD Instruction 1980-D and provide guidance on the Agency's position concerning the use of debt ratio waivers and compensating factors when approving loan guarantees, reiterate Agency methodology for evaluating "payment shock", and clarify whether non-federal collection accounts with outstanding balances are required be paid off prior to closing under the Single Family Housing Guaranteed Loan Program (SFHGLP).

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4262 dated March 30, 2007.

EXPIRATION DATE:
May 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The National Office receives inquiries from both lenders and Agency staff regarding debt ratio waivers, compensating factors, payment shock, and treatment of open collection accounts. How does payment shock factor into loan decisions? What are strong compensating factors lenders may document in order to strengthen a loan application? How high can debt ratios be exceeded?

Rural Development guarantees underwritten loan packages submitted by participating and approved lenders. The agency recognizes that each loan applicant is unique and may require additional flexibility in underwriting when supported in order to assist them in achieving successful homeownership. SFHGLP loans are designed to accommodate the varying needs of each applicant. RD Instruction 1980-D outlines many of the underwriting issues which are addressed in further detail by the AN.

IMPLEMENTATION RESPONSIBILITIES:

State Directors will advise lenders about the need to: underwrite loans according to Agency regulations, process and approve loans in accordance with program instructions, review loan applications for accuracy and completeness, not to exceed income limits, ensure applicants have adequate loan repayment ability, verify acceptable credit histories, and regularly check Rural Development's website for new issuances related to program requirements.

DEBT RATIO WAIVERS:

Requested by the lender, approved by Rural Development

In the guaranteed loan program an applicant meets agency requirements for repayment ability if their Principal, Interest, Real Estate Taxes, and Homeowners Insurance (PITI) debt ratio is 29% or less, and the Total Debt Ratio (TD) (the PITI plus any additional monthly debt obligations combined) is 41% or less.

It is common for underwriters and Rural Development to allow exceptions to both the PITI and TD ratio requirements. There is not a maximum amount that the ratio standards may be exceeded. Strong compensating factors documented by the underwriter will assist Rural Development in approving higher ratio waivers. PITI ratios in the high 30's and TD ratios in the high 40's are not uncommon.

Requests to exceed the standard ratio thresholds must be **submitted in writing** to Rural Development, including the documentation of appropriate compensating factors for support of sound underwriting judgment.

Applicants with Fair Isaacs & Company (FICO) scores of 660 and higher do not require additional compensating factors to be identified for debt ratio waiver requests. If co-applicants included on the application have a FICO score of 659 or below, additional compensating factors should be documented to further support the ratio waiver request. There is no minimum credit score required to be eligible for a debt ratio waiver request. It is possible that a credit score is not indicative of an applicant's true credit risk.

Underwriters are encouraged to evaluate credit, capacity, and collateral when considering any applicant for a debt ratio waiver.

The National Office supports and encourages granting ratio waiver requests for applicants with legitimate compensating factors such as those listed below and in 1980.345(c)(5) which include but are not limited to:

- FICO score of 660 or higher for any applicants.
- No or low payment shock: minimal increase in housing expenses, or current rent is comparable to proposed PITI (100% increase in payment or less).
- Conservative attitude toward the use of credit and ability to accumulate savings
- Previous credit history verifies that applicant has the ability to devote a greater portion of income to housing expense. Many low income or high cost area applicants already pay a substantial amount for rent or housing and are successful.
- Employment history: Two or more years in current position is excellent, however underwriters should consider applicants who change positions frequently to better their financial position. Underwriters should give more credence to a history of continuous employment, (no gaps due to multiple terminations, etc.).
- Additional compensation/income: Public benefits, food stamps, potential commissions, bonus payouts, and additional part time employment that lacks a stable history may not be reflected in the repayment income, yet this additional income will have a direct effect on the ability to successfully repay the mortgage obligation.
- Cash reserves available post closing.
- Potential for increased earnings and career advancement, as indicated by job training or education in the applicant's profession.
- Trailing spouse income: Home is being purchased as the result of relocation of the primary wage-earner. The secondary wage earner has an established history of employment and is currently seeking or expects to return to work and there are reasonable prospects for securing employment in a similar occupation within the new area.
- Low TD: A low TD by itself does not compensate for a high PITI ratio, however when other strong compensating factors are present a low TD ratio should be viewed as a positive mitigating factor.

If requested by a lender, Agency staff may assist lenders in determining any compensating factors associated with guaranteed loan applications to make a preliminary determination of the appropriateness of a ratio exception. However, Rural Development can not approve or deny guaranteed debt ratio waiver requests without a complete underwritten loan package. Denial of a lender's request for a ratio waiver is

not appeal-able, however this adverse action may be reviewed if and when the guaranteed loan is denied for lack of repayment ability.

PAYMENT SHOCK

Approved by the lender

Analysis of early delinquency loans guaranteed under the SFHGLP has indicated that payment shock is a delinquency factor when additional risk factors are present (risk layering). The presence of payment shock is especially significant when the applicant's credit history contains derogatory information.

The term "payment shock" signifies the increase in housing expenses experienced by an applicant. Payment shock is defined as a percentage and calculated using the following formula:

New PITI (principal, interest, taxes and insurance) ÷ Current housing expense – 1.

The following examples illustrate payment shock as a percentage.

A. New PITI: \$850 Current Rent: \$550

$$850.00 \div 550.00 = 1.54 - 1 = .54 \text{ or } 54\%$$

The payment shock in this example is 54 percent.

The payment shock for this example is below 100% and therefore not a risk factor.

B. New PITI: \$1,500 Current rent: \$650

$$1,500.00 \div 650.00 = 2.30 - 1 = 1.30 \text{ or } 130\%$$

The payment shock in this example is 130 percent.

The payment shock for this example is above 100% and therefore is a risk factor.

C. New PITI: \$750 Current rent: \$0 (lives with parents)

The payment shock in this example can not be measured and therefore is a risk factor. In cases where the applicant does not have prior experience in meeting rent or housing expense obligations, payment shock can not be measured as a percentage.

When payment shock is 100 percent or higher, or the applicant has no previous rent or housing expenses, no additional risk layering (such as adverse credit waivers approved by the lender), debt ratio waivers (approved by Rural Development), or temporary buy-downs, should be allowed without strong compensating factors such as those listed above.

COLLECTION ACCOUNTS

Lender decides to pay or not pay non-federal collections

Applicants are expected to demonstrate a reasonable ability and willingness to meet obligations as they come due. If the lender has established that there are mitigating circumstances concerning an applicant's credit history as described in RD Instruction 1980-D, section 1980.345(d)(3), the lender is responsible to determine what collection accounts if any, should be paid in full by the applicant prior to or at closing.

Mitigating circumstances must be documented in the lender's file if the applicant(s) credit scores are 619 and below if there are open collection accounts. In such cases, the

lender must document the adverse credit was temporary in nature and beyond the applicant's control and has been removed.

We emphasize that the loan, while guaranteed by the Agency, is the lender's loan. The determination of whether the collection account represents a greater risk or must be paid off is entirely the lender's decision, regardless of credit score. In some instances payment of the collection account may cause the depletion of cash resources that could otherwise be available as reserves or closing costs.

Paying an outstanding collection is not justification, in itself, that would establish an applicant has demonstrated a willingness to meet obligations in an acceptable manner. The lender's underwriter is required to determine the prospects of the applicant repaying the loan to be guaranteed by the Agency. If the lender establishes there were mitigating circumstances in regards to adverse credit in accordance with section 1980.345(d)(3), the underwriter may determine that it is not necessary to pay a collection account in order to establish the applicant's creditworthiness.

The lender need not document mitigating circumstances for any applicants who have a credit score of 620 or higher.

ENSURING QUALITY UNDERWRITING

Although the Agency is not responsible for underwriting individual Single Family Housing Guaranteed Loans, approved lenders will be periodically monitored for SFHGLP underwriting compliance. Existing lenders that exhibit high early delinquencies or high loan losses will be subjected to quality control reviews to ensure that agency underwriting standards are followed. Newly approved lenders will have their underwriting reviewed based on the criteria outlined in RD Instruction 1980-D, section 1980.309(g)(1).

QUICK REFERENCE GUIDE

Underwriting Topic	Who issues approval	Who documents compensating factors?	Are there minimum credit score benefits?
Debt Ratio Waivers	Rural Development Lender should submit a written debt ratio waiver request to the Agency with documented compensating factors	Lender	660 and higher: Stand alone compensating factor when additional risk layers are not present.
Payment Shock	Lender	Lender	660 and higher: Stand alone compensating factor for payment shock of 100% and above
Collection Accounts	Lender	Lender	620 and higher: No documentation or comments required by underwriter. 619 and below: Underwriter must document that the adverse credit was temporary in nature <u>and</u> beyond the applicant's control <u>and</u> has been removed

Questions concerning this AN should be addressed to Kristina Zehr at (309) 452-0830 ext. 111, or Joaquin Tremols at (202) 720-1465. Their respective email addresses are kristina.zehr@wdc.usda.gov and joaquin.tremols@wdc.usda.gov.

RD AN No. 4367 (1980-D)
May 7, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing
Specialists, Rural Development Managers, and Community
Development Managers

FROM: Russell T. Davis *(Signed by Peter Morgan)* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)
Determining Repayment Income for Self-Employed Applicants

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify how to properly analyze a self-employed applicant's loan application for repayment ability. This AN addresses the following topics:

- What documentation is generally required for self-employed applicants?
- What method should the lender's underwriter use when analyzing the applicant's tax returns?
- How should the underwriter treat business-related debts that are paid with business funds, rather than personal income?

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4266 (1980-D) dated April 11, 2007.

EXPIRATION DATE:

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

These guidelines reflect mortgage industry standards. Following these guidelines will ensure processing uniformity and reduce the possibility of underwriting errors.

Underwriting the self-employed loan applicant has always been especially challenging. Not only must the underwriter make sense out of complex tax returns, profit and loss statements, balance sheets and other related documentation, the underwriter must be able to use sound reasoning and judgment when deciding which rules to apply and when.

The mortgage industry has had varying success in establishing only one way to underwrite a self-employed loan applicant. The underwriter must apply specific rules to the loan application depending on investor, insurer, or guarantor.

The SFHGLP requires the Lender to determine:

- The self-employed applicant's adequate and dependable income. RD Instruction 1980-D, section 1980.345(b). This income figure is used to determine the applicant's *qualification* to repay the requested loan.
- The self-employed applicant's annual income and adjusted annual income. (RD Instruction 1980-D, sections 1980.347, 1980.345(a) and 1980.348) These income figures are used in the determination of an applicant's *eligibility* for the Rural Housing Service loan guarantee.

SFHGLP regulations recognize that an applicant's *qualifying* income may be different than the applicant's *eligibility* income. RD Instruction 1980-D, section 1980.345(c)(2)(i). This distinction is important to remember when determining how to apply the different rules.

The annual income determination requirements in RD Instruction 1980-D, section 1980.347(d)(2) were designed to help ensure that the program benefits go to eligible households. Consistent application of these requirements is important to ensure fairness to all self-employed applicants.

The adequate and dependable repayment income requirements in RD Instruction 1980-D, section 1980.345(b) and (c) were designed to help ensure that borrowers will be able to make the loan payments and stay in their home. Consistent application of these requirements is important to ensure that all qualified self-employed borrowers are approved for a Guaranteed Rural Housing (GRH) loan.

DOCUMENTATION:

To permit required verification of income under RD Instruction 1980-D, section 1980.353, self-employed applicants should submit copies of their signed individual Federal tax returns that were filed with the IRS for the most recent two years. As an alternative, the lender may obtain IRS-issued transcripts of the borrower's tax returns, as long as the transcripts include the information from all of the applicable schedules.

The tax return documentation should be complete and include all appropriate schedules. The type of self-employment (e.g., sole proprietorship, partnership, or corporation), typically will determine which schedules are appropriate. Examples of tax return documentation include Form 1040 (Individual Income Tax Return), Schedule C (Profit or Loss from Business, Sole Proprietorship), Schedule F (Profit or Loss from Farming), Schedule D (Capital Gains and Losses), Schedule SE (Self-Employment Tax) and Schedule J (Farm Income Averaging). Other tax forms include Form 1065 (Partnership), Form 1120S (S Corporation), and Form 1120 (Corporation).

The self-employed applicant also should submit current documentation of the business's income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent two years as well as year-to-date profit and loss and balance statements. Depending on the facts of the individual application, the lender may require more documentation in order to determine the self-employed applicant's income.

In all cases, the lender must obtain sufficient documentation to support its determination regarding the viability of the business and the self-employed applicant's income. Only after the lender receives adequate documentation may the self-employed applicant's qualifying income be accurately calculated.

For quality assurance purposes, the lender should require the self-employed applicant to sign IRS Form 4506, "Request for Copy or Transcript of Tax Form," or IRS Form 8821, "Tax Information Authorization," at the time of application and send the form to the IRS during the processing of the loan application. (The lender does not have to receive the information back from the IRS before closing the loan.)

UNDERWRITING METHODS AND FORMS:

We encourage the lender's underwriter to use:

- Fannie Mae Form 1084, "Cash Flow Analysis";
--and--
- Fannie Mae Form 1088, "Comparative Income Analysis" to document a trend analysis for the borrower's business.

The lender may use the Fannie Mae forms or any documentation that provides the same information. Regardless of the analysis method used, and the documentation prepared by

the lender, the loan file must contain clear and sufficient support for the underwriter's decisions regarding the viability of the business and loan approval.

HOW TO TREAT BUSINESS DEBTS:

Traditionally, the primary business structure that many of our self-employed applicants engage in is a sole proprietorship (a business, farm, or profession). The success of this type of endeavor depends largely on the individual owner, and business income or loss is reported in the individual owner's personal tax return.

Also, although the individual owner has personal liability for all debts of the business in a sole proprietorship, business-related debts are often paid with business funds, rather than personal income.

When completing the calculations required by RD Instruction 1980-D, sections 1980.345(b) and (c), the lender may add the following allowable IRS deductions to net profit (item #31 on Schedule C or item #36 on Schedule F):

- Depletion (item #12 on Schedule C)
- Depreciation (item #13 on Schedule C or item #16 on Schedule F)

Net profit + Depletion + Depreciation = Repayment Income

If a debt such as a car loan is paid through the business, the debt does not need to be included in debt ratio calculations as long as documentation is provided that the debt is paid by the business. Documentation showing that the debt payments are made by the business may include 12 months of cancelled business checks.

SUMMARY:

Please note that the methodology described in this AN applies only to the self-employed applicant's *qualifying* or *repayment* income. Underwriters must continue to follow the provisions of RD Instruction 1980-D, section 1980.347(d)(2) regarding capital expenditures and straight-line depreciation when determining annual income for *eligibility* purposes.

State Offices having questions regarding this AN should contact Joaquín Tremols or David Chaput at (202) 720-1452. Their respective email addresses are joaquin.tremols@wdc.usda.gov and david.chaput@wdc.usda.gov.

RD AN No. 4402 (1980-D)
November 17, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Coordinators,
Area Directors and Area Specialists

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Eligibility of Non-U.S. Citizens for Single Family Housing Guaranteed Loan
Program Assistance and the Systematic Alien Verification for Entitlements
Program

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is intended to furnish guidance concerning access to the Systematic Alien Verification for Entitlements (SAVE) Program database maintained by the Department of Homeland Security (DHS) Citizenship and Immigration Service (CIS). SAVE may assist in determining whether non-U.S. citizens are qualified to receive Federal assistance. This AN also describes what documentation non-U.S. citizens must supply when SAVE does not achieve a determination, in order to be considered for a loan note guarantee under the Single Family Housing Guaranteed Loan Program (SFHGLP).

COMPARISON WITH PREVIOUS AN:

This AN revises and replaces RD AN No. 4302 which was dated July 31, 2007, and is hereby retired. A minor addition is incorporating that, no matter what Class Of Admission (COA) is returned by SAVE, if the response states "LAWFUL PERMANENT RESIDENT-EMPLOYMENT AUTHORIZED" then the applicant is a qualified alien. Also, further guidance is provided for instances when SAVE has returned an inconclusive result but the alien has submitted immigration documentation that appears to meet those listed in this AN.

EXPIRATION DATE:
October 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

Agency personnel using SAVE are reminded that they should enter only Alien Identification Numbers into SAVE; social security numbers or other numbers will not yield valid results.

BACKGROUND:

The Housing and Community Facilities Programs have entered into an “Interagency Agreement” with the CIS. This agreement enables Housing and Community Facilities Program staff to obtain online immigration status information to assist in determining a non-citizen applicant’s program eligibility. In most cases, SAVE will provide immediate responses concerning the immigration status of an applicant. This program is available to all Housing and Community Facilities Programs.

RD Instruction 1980-D, section 1980.346(c), limits eligibility for individuals who receive a loan note guarantee under the Single Family Housing Guaranteed Loan Program (SFHGLP) to those who:

reside as a citizen in any of the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, Federated States of Micronesia, and the Republics of the Marshall Islands and Palau, or a non-citizen who resides in one of the foregoing areas after being legally admitted to the U.S. for permanent residence or on indefinite parole.

The term “indefinite parole” is no longer a term used by the CIS, formerly known as the Immigration and Naturalization Service (INS). Instead, under Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. Section 1611) lenders and the Agency must determine whether the applicant for a guaranteed loan is a U.S. citizen, a U.S. non- citizen national, or a “qualified alien.”

Generally, a U.S. non-citizen national is a person born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. Typical evidence of the relatively uncommon status as a non-citizen national includes a birth certificate or passport, and persons who are non-citizen nationals are eligible for consideration under the SFHGLP.

A “qualified alien” is defined under PRWORA (8 U.S.C. Section 1641) as:

- 1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
- 2) an alien who is granted asylum under section 208 of such Act;
- 3) a refugee who is admitted to the United States under section 207 of such Act;
- 4) an alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year;
- 5) an alien whose deportation is being withheld under section 243(h) of such Act; or
- 6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980;

- 7) an alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the Refugee Education Assistance Act of 1980; or
- 8) An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act (INA).

Native Americans born in Canada also may be considered as lawfully admitted for permanent residence under RD Instruction 1980-D, section 1980.346. Please refer to the documentation section below.

The Department of Housing and Urban Development (HUD) will insure loans to non-permanent resident aliens provided that the borrower occupies the property as a residence, has a social security number, and is eligible to work in the United States. Despite HUD's operating policy in this regard, the USDA Office of the General Counsel has determined that the SFHGLP may not permit loans to be guaranteed unless the non-permanent alien is deemed to be a qualified alien.

IMPLEMENTATION RESPONSIBILITIES:

Lenders must secure proof of identity and evidence that non-citizens who apply for a guaranteed loan are qualified aliens. The evidence confirming qualified alien status may be obtained after the lender has received an application for credit from the potential borrower. The lender should obtain the documentation described below. Alternately, the lender may obtain the non-citizen's alien identification number and communicate it to the Agency office servicing their area. Agency staff will then submit the alien's identification number to SAVE and, in most cases, will be able to promptly inform the lender of the applicant's eligibility status based on the aliens COA.

Selected Agency personnel will be supplied a user name and password to access the SAVE website. Each State Office should submit the name, telephone number, and address of one person who will administer user access to SAVE for the State by email to Dave Chaput at david.chaput@wdc.usda.gov. The person will then be given "supervisor" access and will be able to establish other SAVE supervisors and users within their State Office jurisdiction.



U.S. Citizenship and Immigration Services
Verification Information System Logon

You have been successfully logged out.

Please login:

User ID:

Password:

Login Reset

* = required entry

WARNING - This system is for the use of authorized users only. Individuals using this computer system without authority, or in excess of their authority, are subject to having all of their activities on this system monitored and recorded by system personnel. In the course of monitoring individuals improperly using this system, or in the course of system maintenance, the activities of authorized users may also be monitored. Anyone using this system expressly consents to such monitoring and is advised that if such monitoring reveals possible evidence of criminal activity, system personnel may provide the evidence of such monitoring to law enforcement officials.

This AN is not a tutorial or a user guide. Agency staff should complete the SAVE tutorial section once logged on and prior to using the system. After the tutorial is completed, the employee will be able to

enter the applicant's Alien Identification Number (9 digits) into the "Alien Number" field, select the program for which the alien is seeking a benefit, and submit the information for processing. Social Security numbers, driver's license numbers, or any number other than an Alien Identification Number **will not** yield a valid result.

U.S. Citizenship and Immigration Services
WEB-1 Initial Verification

On-Line Resources | Tutorial | Return to Home | About | Exit

Case Administration
Initial Verification
Additional Verification
View Cases
User Administration
Change Password
Change Profile
Reports
View Reports

Enter Initial Verification Information

Alien Number: *
Benefits: (select one or more)
USDA Housing Grants
USDA Housing Loans
USDA Loan Guarantees
USDA Rent Assistance

Submit Initial Verification Cancel

* = required entry

Agency personnel should enter the Alien Number and select which benefit the alien is applying for.

The system will normally respond within seconds of the applicant's eligibility and a COA code. In some cases SAVE will also give a "System Response" indicating the alien's status, however in most cases the Agency should rely on the COA code.

U.S. Citizenship and Immigration Services
WEB-1 Case Details

On-Line Resources | Tutorial | Return to Home | Case Verification Number: 20

Case Administration
Initial Verification
Additional Verification
View Cases
User Administration
Change Password
Change Profile
Reports
View Reports

Initial Verification

Alien Number: * Benefits: USDA Loan Guarantees
Initiated By: DCHAI1612 Initiated On: 03/17/2006

Initial Verification Results

Last Name: * Middle Initial: A Country: * Date of Entry: 07/30/1996
First Name: DAVID COA: IR7 Date of Birth: 01/27/1980
EAD Expiration Date: *
System Response: LAWFUL PERMANENT RESIDENT-EMPLOYMENT AUTHORIZED

Print Case Details Request Additional Verification Complete and Close Case

* = required entry

This is the COA code that Agency personnel should review to determine if the alien is qualified to receive Federal assistance.

Agency staff should compare the COA code to those in the tables below. If the code appears in the “Eligible for Benefits” table, print the case verification for the file and proceed with the loan guarantee. No matter what the COA, if the response states “LAWFUL PERMANENT RESIDENT-EMPLOYMENT AUTHORIZED” the borrower is eligible for our benefit.

Alien COA Codes ELIGIBLE for Benefits

A11	AS7	C21	CB7	E12	EC7	F38	HD7	IW2	P23	SK2	SR3
A12	AS8	C22	CF1	E13	EC8	F41	HD8	IW6	PH6	SK3	SR6
A16	B11	C23	CF2	E14	ES1	F42	HD9	IW7	R2	SK4	SR7
A17	B12	C24	CH6	E15	ES6	F43	HE6	K19	R3	SK6	SR8
A31	B16	C25	CR1	E16	EW0	F46	HE7	K20	R51	SK7	T51
A32	B17	C26	CR2	E17	EW3	F47	HE8	K1C	RE	SK8	T52
A33	B20	C27	CR6	E18	EW4	F48	HE9	K1P	RE5	SK9	T53
A36	B21	C28	CR7	E19	EW5	FX1	IB0	LA6	RE6	SL1	T56
A37	B22	C29	CU0	E21	EW8	FX2	IB1	LB1	RE7	SL6	T57
A38	B23	C31	CU6	E22	EW9	FX3	IB2	LB2	RE8	SD3	T58
A41	B24	C32	CU7	E23	F11	FX6	IB3	LB6	RE9	SM0	USC
A42	B25	C33	CU8	E26	F12	FX7	IB5	LB7	RF	SM1	W16
A46	B26	C36	CU9	E27	F16	FX8	IB6	M1	SD1	SM2	W26
A47	B27	C37	CUP	E28	F17	GA6	IB7	M2	SF1	SM3	W36
AA1	B28	C38	CX1	E30	F20	GA7	IB8	M83	SF2	SM4	W46
AA2	B29	C41	CX2	E31	F21	GA8	IC6	M93	SF6	SM5	X
AA3	B31	C42	CX3	E32	F22	HA6	IC7	MR0	SF7	SM6	XB3
AA6	B32	C46	CX6	E34	F23	HA7	IF1	MR6	SG1	SM7	XE3
AA7	B33	C47	CX7	E35	F24	HA8	IF2	MR7	SG2	SM8	XF3
AA8	B36	C51	CX8	E36	F25	HA9	IR0	NA3	SG6	SM9	XN3
AM1	B37	C52	DS1	E37	F26	HB6	IR1	NC6	SG7	SN1	XR3
AM2	B38	C53	DV1	E39	F27	HB7	IR2	NC7	SH1	SN2	Y64
AM3	BX1	C56	DV2	E51	F28	HB8	IR3	NC8	SH2	SN3	Z03
AM6	BX2	C57	DV3	E52	F29	HB9	IR4	NC9	SH6	SN4	Z13
AM7	BX3	C58	DV6	E53	F31	HC6	IR5	NP8	SH7	SN6	Z15
AM8	BX6	C7P	DV7	E56	F32	HC7	IR6	NP9	SJ2	SN7	Z33
AR1	BX7	CB1	DV8	E57	F33	HC8	IR7	P1-1	SJ6	SN8	Z43
AR6	BX8	CB2	E10	E58	F36	HC9	IR9	P21	SJ7	SN9	Z56
AS6	C20	CB6	E11	EC6	F37	HD6	IW1	P22	SK1	SR2	Z66
											Z83

The following table represents COA codes that are either inconclusive or which indicate the applicant is not a qualified alien. In these cases, the loan should not be guaranteed without additional documentation that establishes the alien is qualified to receive Federal assistance. The alien should submit at least one of the items described in the section below named “Documentation that a Non-Citizen is a Qualified Alien.” If the alien is not able to submit such documentation, they have not established they are a qualified alien and a Loan Note Guarantee should not be issued.

Ineligible or Inconclusive COA Codes

991	BC3	DE	EX7	H1C	IT3	N3	NT8	R52	S2D	SL6	T43	TW2
992	BC6	DEC	EX8	H2	IT6	N4	O1	R53	SB1	SO1	T46	TW3
993	BC7	DT1	EXC	H3	IT7	N5	O2	R56	SC1	SO2	T47	U1
994	BC8	DT2	EXP	H4	IT8	N6	O3	R57	SC2	SU0	TA	U2
999	BCC	DT3	F1	H2B	J1	N7	OP	R58	SC6	SU2	TB	U3
A1	BCD	DT4	F2	H2R	J2	N8	P1	RAD	SC7	SU6	TC	U4
A2	BE	DT5	F3	HK1	K1	N9	P2	RE1	SD1	SU7	T48	U5
A3	C1	DT6	FFD	HK2	K2	N51	P3	RE2	SD2	SU8	T1D	UN
ABD	C2	DT7	FFG	HK3	K3	N52	P4	RE3	SD3	SU9	T2D	UU
ABS	C3	DT8	FFP	HK6	K4	N53	PAC	RE4	SD6	SY6	T3D	V1
AO	C4	DX	FFW	HK7	L1	N56	PEN	REC	SD7	SY7	TC1	V2
AS	CC	E1	FUG	HK8	L2	N57	PL1	REM	SD8	SY8	TC2	V3
AS1	CH	E2	G1	HR 2267	LE1	N58	PL2	REP	ST0	T1	TD	W1
AS2	CP	E3	G2	I1	LE2	NATO1	Q1	RN6	ST6	T2	TF1	W2
AS3	CS1	EF	G3	I51	LPR	NATO2	Q2	RN7	ST7	T3	TF2	WI
ASD	CS2	EP	G4	I52	LU1	NATO3	PL2	RW	ST8	T4	TN	W1D
ASP	CS3	ER	G5	I53	LU2	NATO4	PR	S1	ST9	T5	TR	W2D
ASR	CSS	ERF	GB	I56	MI1	NATO5	Q1	S2	SDF	T21	TR1	W3D
AY1	D1	ERP	GR	I57	MI2	NATO6	Q2	S4	SE1	T22	TR2	WB
AY2	D2	ERR	GT	I58	MI3	NATO7	Q3	S8	SE2	T23	TR6	WD
AW	DA	EWI	H1	ID6	M11	NT1	R1	S9	SE3	T26	TR7	WR
B1	DAS	EX1	H1A	IJ	MI2	NT2	R5	S13	SE6	T27	TRM	WT
B2	DEP	EX2	H2A	IMM	MI3	NT3	R2	S16	SE7	T28	TS1	Z14
BC1	DHR	EX3	H1B	IT1	N1	NT6	R4	S26	SE8	T41	TS2	ZM1
BC2	DNA	EX6	H1B1	IT2	N2	NT7	R51	S1D	SL1	T42	TW1	ZM2

The SAVE screens provide a function to “Request Additional Verification” as illustrated in the screen print below. If SAVE is unable to provide a COA code, Agency staff **should not** click on the “Request Additional Verification” button without checking with the National Office first. There is an additional cost to “Request Additional Verification” and in most cases this option will not yield a better result than the first one. Frequently, aside from the additional cost, the “Request Additional Verification” function will only result in SAVE requesting that the alien documentation be mailed to CIS along with a CIS form. Agency staff should not use the “Request Additional Verification” function without first consulting with the National Office.

U.S. Citizenship and Immigration Services
WEB-1 Case Details

On-Line Resources | Tutorial | Return to Home

Case Verification Number: 2006193085452WB

Initial Verification

Alien Number: 683122579 Benefits: USDA Loan Guarantees

Initiated By: TREMOLS2 Initiated On: 07/12/2006

Initial Verification Results

Last Name: First Name:
Middle Initial: COA:
Country: Date of Birth:
Date of Entry: EAD Expiration
Date:
System Response: INSTITUTE ADDITIONAL VERIFICATION

Print Case Details Request Additional Verification Complete and Close Case

Do not "Request Additional Verification" without checking with the National Office first.

* = required entry

The Agency should rely on the COA code returned by the first submission to SAVE. On occasion, a SAVE user may receive a COA code that is not mentioned in this AN. In such cases, the SAVE user should contact the National Office for further assistance.

In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In the rare occasion where a number is not available or known, the **applicant** should contact the CIS. There are cases where an alien has been legally in the US for a long period of time, and the Department of Homeland Security has supplied them with a number, but the alien did not ever receive or has misplaced the number.

As mentioned above, approved lenders should obtain proof of identity and evidence that non-citizens who apply for a guaranteed loan are qualified aliens. If the lender has done so and supplies Agency personnel with an Alien Identification Number, Agency staff should attempt using SAVE to verify a non-citizens immigration status in the United States. The documentation described below may also be obtained to verify whether the alien is a qualified alien.

Please note that if the SAVE response was inconclusive and the alien submits one of the documents below, or if the SAVE inconclusive result arose from an Alien Identification Number which was taken from one of the documents listed below, then the authenticity or validity of the document may be in question. **In such cases, Agency personnel must immediately contact the National Office for additional instructions.**

Documentation that a Non-Citizen is a Qualified Alien

Any of the following documents are acceptable evidence of eligible immigration status:

1. CIS Form I-551, “Alien Registration Receipt Card” (for permanent or conditional resident aliens);
2. In some cases, the CIS will stamp a page of the alien’s passport with the following information:

PROCESSED FOR I-551
TEMPORARY EVIDENCE OF
LAWFUL ADMISSION FOR
PERMANENT RESIDENCE
VALID UNTIL _____
EMPLOYMENT AUTHORIZED

In these cases, the CIS official will handwrite the expiration date of the stamp in the blank space after the words “valid until,” and may also handwrite the date of issuance above the stamp. Whenever this documentation is submitted as evidence of qualified alien status, a copy of the passport, including the stamped page, should be sent to the nearest CIS District Office along with CIS Form G-845S, “Document Verification Request.” The CIS will return CIS Form G-845S to the requesting office with an indication whether the document is valid and relates to a permanent or conditional resident alien. CIS Form G-845S is available online at the following address:

<http://www.uscis.gov/files/form/g-845s.pdf>

3. CIS Form I-688B, “Employment Authorization Card,” which must be annotated “Provision of Law” followed by one of the provisions listed below:
 - 274a.12(c)(11),
 - 274a.12(a)(1),
 - 274a.12(a)(3),
 - 274a.12(a)(4),
 - 274a.12(a)(5),
 - 274a.12(a)(10).
4. CIS Form I-766, “Employment Authorization Document” annotated as follows:
 - A3, or
 - A5, or
 - A10.
5. CIS Form I-571, “Refugee Travel Document”;
6. CIS Form I-94, Arrival-Departure Record, with one of the following annotations:
 - “Admitted as Refugee Pursuant to Section 207”;
 - “Section 208” or “Asylum”;
 - “Section 243(h)” or “Deportation stayed by Attorney General”;
 - “Paroled Pursuant to Section 212(d)(5) of the INA”;
 - “Admitted under Section 203(a)(7) of the INA.”

7. If Form 1-94 is not annotated, it will still be acceptable evidence of eligible immigration status if it is accompanied by one of the following documents:
 - A final court decision granting asylum (but only if no appeal is taken);
 - A letter from a CIS asylum officer granting asylum (if application is filed on or after October 1, 1990) or from a CIS district director granting asylum (if application was filed before October 1, 1990);
 - A court decision granting withholding of deportation; or
 - A letter from an asylum officer granting withholding of deportation (if application filed on or after October 1, 1990).
8. A receipt issued by the CIS indicating that an application for issuance of a replacement document in one of the above-listed categories has been made and the applicant's entitlement to the document has been verified; or
9. Other acceptable evidence. If other documents are determined by the CIS to constitute acceptable evidence of eligible immigration status, they will be announced by notice published in the Federal Register.

If the documentation described above appears to be altered or counterfeit, or if the alien presents unfamiliar CIS documentation, the Agency should complete CIS Form G-845S, "Document Verification Request," and forward it to the nearest CIS District Office for review. A copy of CIS Form G-845S is available on the internet at the following location <http://www.uscis.gov/files/form/g-845s.pdf>. Fully readable copies (front and back) of the original immigration documents should be attached to the CIS Form G-845S when it is submitted to the CIS District Office. The original documents should be returned to the non-citizen. There is a 10 business day CIS processing period. The location of CIS District Offices is available on the internet at https://egov.immigration.gov/crisgwi/go?action=offices.type&OfficeLocator.office_type=LO.

Documentation for Native Americans in the United States under the Jay Treaty

In addition to the categories of qualified aliens described above, Native Americans born in Canada may also be eligible as lawfully admitted for permanent residence under RD Instruction 1980-D, section 1980.346. They might not possess any of the documentation described above, and the Agency might not be able to verify their status through SAVE. To establish that they are a qualified alien, the Native American should provide **all** of the documentation listed below, as described in the Wabanaki Legal News. The Wabanaki Legal News is available on the internet at <http://www.ptla.org/wabanaki/jaytreaty.htm>.

- A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- Their Canadian "Certificate of Indian Status Card" with a red stripe along the top;
- Their birth certificate;
- If an Haudenosaunee, their Red I.D. Card;
- If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;

- Their Social Security Card issued by the U.S. Social Security Administration;
- Their Canadian or U.S. driver license.

Should there be any comments or questions concerning this AN, please contact Joaquín Tremols or David Chaput at (202) 720-1452. Their respective email addresses are joaquin.tremols@wdc.usda.gov and david.chaput@wdc.usda.gov.

RD AN No. 4404 (1980-D)
December 3, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing
Coordinators, Area Managers and Specialists

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)
Temporary Interest Rate Buydowns

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice is to clarify and provide additional guidance regarding temporary interest rate buydowns. These policies are effective with all mortgage applications signed on or after the effective date of this Administrative Notice and are applicable to manual and automated underwriting.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

EXPIRATION DATE:
November 30, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Temporary interest rate buydowns are a financing tool designed to reduce the borrower's monthly mortgage payment during the early years of repayment. The most familiar temporary interest rate buydown is the 2-1-0 buydown. It is a temporary reduction in the interest rate paid by the borrower, resulting in a reduction below note rate of two percent during the first year, a reduction below note rate of one percent the second year of the loan, after which the interest rate reverts to the note rate for the remainder of the life of the loan.

To cover the shortfall between the reduced payments made by the borrower and the regular payments received by the lender, cash is withdrawn from a special escrow account set up for that purpose. The total payment received by the lender, consisting of the payment made by the borrower plus the withdrawal from the escrow account is the same as it would be in the absence of the buydown.

The table below illustrates the mortgage payment for a 2-1-0 temporary interest rate buydown.

2-1-0 Buydown Payments by Borrowers and Payments From Escrow \$100,000 loan; 30 Year Fixed 7% Mortgage			
Year	Payment Received by Lender	Payment by Borrower	Payment From Escrow
1	\$665.31	\$536.83	\$128.48
2	\$665.31	\$499.56	\$65.75
3 – 30	\$665.31	\$665.31	\$0
Total Escrow			\$2331

IMPLEMENTATION RESPONSIBILITIES:

In accordance with Section 1980.392(b) of RD Instruction 1980-D, the use of a funded buydown is permitted when the Lender obtains prior Rural Development approval.

The following outlines underwriting requirements for temporary interest rate buydowns:

- The mortgage loan must be underwritten at the note rate.
- Buydown funds may come from the seller, lender or other third party.
- Buydown funds may not come from the borrower.
- The initial interest rate is temporarily reduced no more than two percent below the note rate *and* increased by no more than one percent annually for no more than two years.

- The lender must establish that the eventual increase in mortgage payments will not affect the borrower adversely and lead to default. The underwriter must document the compensating factors which indicate the borrower's ability to meet the expected increases in loan payment, such as:
 - The borrower has a potential for increased income that would offset the scheduled payment increases, as indicated by job training or education in the borrower's profession or by a history of advancement in the borrower's career with increases in earnings.
 - The borrower has demonstrated ability to devote a greater portion of income towards housing expenses.
 - The borrower has substantial assets available to cushion the effect of the increased payments.
- Funds for a temporary interest rate buydown must be escrowed with a state or federally supervised Lender and fully funded for the buydown period.

Questions regarding this AN can be directed to Debbie Terrell at 918.534.3254 or debra.terrell@wdc.usda.gov or Joaquín Tremols at 202.720.1452 or joaquin.tremols@wdc.usda.gov.

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Area Directors and Area Specialists

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)
RD Instruction 1980-D, Section 1980.324
Lender Charges and Fees

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify Agency requirements under RD Instruction 1980-D, Section 1980.324(a) for routine charges and fees that lenders may charge borrowers. The Agency wishes to prevent lenders from charging excessive fees for guaranteed loans and to protect low-and moderate-income borrowers from paying excessive loan fees, or borrowing funds for fees that are not reasonable and customary. This AN does not apply to maximum interest rate requirements. Maximum interest rates should be handled according to RD Instruction 1980-D, Section 1980.320.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN 4307 (1980-D), dated September 10, 2007.

EXPIRATION DATE:

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The Agency does not require that all lenders charge fees that are like those of their competitors. Rather, individual SFHGLP lenders are expected to assess charges and fees for SFHGLP loans that are no greater than those they charge other applicants for similar type transactions. While most lenders comply with the requirements for charging fees that are reasonable and customary, cases have arisen where lender fees have been abnormally high. Lender charges and fees may generally consist of appraisal fees, attorney fees, broker fees, and other fees associated with originating and closing a Single Family Housing real estate loan.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 1980-D, Section 1980.324(a) states that lenders “may establish the charges and fees for the loan, provided they are the same as those charged other applicants for similar types of transactions.”

Rural Housing Service considers loans guaranteed under the SFHGLP to be similar to loans insured or guaranteed by the Federal Housing Administration (FHA) or by the Department of Veterans Affairs (VA). Fees charged by a lender to borrowers for loans guaranteed under the SFHGLP should not exceed fees charged by the same lender for loans insured or guaranteed by FHA or VA. Other high loan-to-value home mortgage products can also be used for comparison.

The Agency reviews loan applications for completeness and to determine whether the proposed loan is, to an eligible applicant, for an eligible loan purpose. If, when reviewing loan applications, the Agency determines that a lender proposes to charge fees or use loan funds to pay for fees that appear questionable or too high, the Agency should ask the lender to justify the fees prior to issuing the conditional commitment. A lender should be able to document that the charges or fees assessed against borrowers whose loans are guaranteed under the SFHGLP do not exceed charges or fees routinely made by the lender for similar transactions such as FHA or VA loans. Lender justifications should only be required when the Agency is reasonably certain that the fees being charged are not reasonable and customary, and, therefore, ineligible for SFHGLP loan purposes.

In addition, during lender compliance reviews, SFHGLP loan program settlement statements should be reviewed in an effort to ensure that SFHGLP program borrowers are being charged fees that are reasonable and customary, including fees that may not have been part of the SFHGLP loan amount. Lenders that are determined to be out of compliance should be counseled on the provisions of the regulation and should be monitored closely for future compliance. Failure to resolve the noncompliance may be considered in termination of lender eligibility under section 1980.309.

Should there be any comments or questions concerning this AN, please contact David Chaput or Joaquin Tremols at (202) 720-1452. Their respective email addresses are david.chaput@wdc.usda.gov or Joaquin.Tremols@wdc.usda.gov.

RD AN No. 4411 (1980-D)
December 3, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Area Directors and Area Specialists

FROM: Russell T. Davis (*Signed Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Adequate and Dependable Income - Rents or Leases

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify how to treat residential rental income when underwriting loans under the Single Family Housing Guaranteed Loan Program (SFHGLP) when there is a newly signed lease for a property which a borrower will not sell when purchasing a new principal residence.

COMPARISON WITH PREVIOUS AN:

There is no previous AN issued on this subject.

EXPIRATION DATE:
December 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The SFHGLP continues to evaluate both the real estate lending environment and loan performance. Federal Housing Administration (FHA) released Mortgagee Letter (ML) 2008-25 on September 19, 2008, in response to an unscrupulous practice arising in the mortgage market that poses a risk not only to FHA, but also to the SFHGLP portfolio and approved lenders. The practice is known in the mortgage industry as “buy and bail.”

An increasing number of homeowners are attempting to purchase new homes but cannot sell their existing principal dwellings because of prevailing market conditions. Some homeowners are attempting to retain and rent out their existing principal residence, while at the same time trying to purchase a new principal residence. The homeowners attempting to rent out their existing properties are producing newly signed leases as evidence of income to offset the costs of maintaining the old residence and continue making payments on it. Increasingly, income from the new leases never materializes and the old principal residence goes into foreclosure.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 1980-D, Section 1980.345(c)(2)(i) states, “the lender must determine whether there is a historical basis to conclude that the income is likely to continue when determining income utilized in debt ratio calculations.”

Newly signed leases:

A newly signed lease has no historical basis to conclude that the income is likely to continue. Applicants who wish to purchase a new principal residence and retain or rent a residence must qualify with all mortgage liability payments. Income from newly signed leases cannot be used in debt ratio calculations. The exclusion of rental income will ensure the applicant has sufficient monthly income to meet all mortgage and liability payments. This applies to manual and automated underwritten loan files.

Rental income that is not stable and dependable should not be included in either repayment or annual income calculations for program eligibility.

This guidance, similar to the FHA guidance in Mortgagee Letter 2008-25, is provided in an effort to prevent “buy and bail” scenarios as described in the “background” section above. While the property being vacated may not have a mortgage guaranteed by USDA Rural Development, surrounding properties may, and therefore USDA Rural Development could be negatively impacted as the result of a foreclosure.

Exception:

RD Instruction 1980-D, section 1980.346(a) indicates that the applicant must be a person who:

1. does not own a dwelling in the local commuting area.
2. owns a dwelling which is not structurally sound, functionally adequate.

Example: If an individual or family has been transferred or found employment in a different state, and their old residence is not in the local commuting area of their new employment location, they meet the requirement of not owning a dwelling in the local commuting area.

Example: If the home has documented structure, safety, or sanitation issues, or if it is a manufactured home not anchored on a permanent foundation, it would not be considered structurally sound or functionally adequate.

The instances covered in sections 1980.346(a)(1) and (2) are the only instances in which applicants may retain their old residence and for which newly signed leases may be considered. In these cases, the lender may consider an executed lease agreement signed by both parties along with proof that the security deposit and the first months rent have been paid. The gross monthly rent amount must be reduced for maintenance and as a vacancy factor by 25 percent before subtracting principal, interest, taxes, and insurance (PITI), homeowners' association dues, and any other recurring housing expenses. The remainder must be applied to income, or treated as a recurring debt if negative.

Example: Assume a monthly rent income of \$500, and a PITI of \$400. The net rent income after a 25 percent reduction is \$375. After subtracting the PITI, the applicant will have a \$25 monthly debt associated with the rental property.

Example: If the monthly rent income were \$600 and the PITI is \$400, the net rent income after the 25 percent reduction would come to \$450, and subtracting the PITI would result in monthly income of \$50.

Historically leased properties and Federal Tax Returns:

Other than the newly signed lease scenarios discussed above under sections 1980.346(a)(1) and (2), it is possible that an applicant has a history of receiving rents from a leased property. If an applicant has historically leased a property, the lender may be able to use the applicant's tax returns to document the rental income as "adequate and dependable."

Rents received by the applicant over the past 24 month period should be documented on IRS Form 1040, Schedule E, for the past 2 income tax filings. The income may be averaged over the past 24 month period, and depreciation may be added back to the net income or loss shown on Schedule E. Positive rental income may be considered as gross income for qualifying purposes. Negative rental income or cash flow must be treated as a recurring monthly liability.

Income Eligibility

If there is income calculated, either from the tax return or from the lease scenarios, it should be included in income eligibility calculations as well as repayment income calculations.

Questions regarding this AN may be directed to Kristina Zehr (309) 452-0830 ext. 111, or Joaquin Tremols at (202) 720-1465. Their respective email addresses are kristina.zehr@wdc.usda.gov and joaquin.tremols@wdc.usda.gov.

RD AN No. 4412 (1980-D)
January 5, 2009

TO: State Directors
Rural Development

ATTN: Rural Housing Program Directors, Area Directors,
Guaranteed Rural Housing Coordinators and Specialists

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Correction of Date of Obligation, Increase or Decrease
of Obligation Amount for the Current or Prior Fiscal Year

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) provides guidance to field staff on correcting the date of obligation for the Single Family Housing Guaranteed Loan Program (SFHGLP) and provides guidance on increasing or decreasing the amount of obligation for a SFHGLP loan, including a loan obligated with prior fiscal year (FY) funds.

COMPARISON WITH PREVIOUS AN:

This AN revises and replaces RD AN No. 4314 (1980-D) dated November 2, 2007.

EXPIRATION DATE:
December 31, 2009
1980-D

FILING INSTRUCTIONS:
Preceding RD Instruction

BACKGROUND:

From time to time, the need arises to change the date of a SFHGLP obligation of funds due to the following circumstances:

- the lender closed the SFHGLP loan prior to the date of obligation;
- the obligation was accidentally deleted prior to the closing of the SFHGLP loan;
- the lender closed a loan for an amount higher than stated on the issued Conditional Commitment and higher than the amount obligated for the loan.

IMPLEMENTATION RESPONSIBILITIES:

The following procedures outline the process to follow when it becomes necessary to change the date of SFHGLP obligation.

CURRENT FISCAL YEAR:

Should an obligation amount need to be increased or an obligation date need to be changed for current fiscal year loans so the loan can be closed on the system, the field office must complete the process listed below:

1. De-obligate the entire loan through the Guaranteed Loan System (GLS) Web screens by inserting zero (0) in the loan amount of the Obligation screen. Press the "Submit to Program Loan Accounting System (PLAS)" button. Next, select the radio button "Do Not Withdraw. Return application to 'Approved' status." (This initiates a full 1D process in PLAS.)
2. Update the Guaranteed Rural Housing (GRH) request for this borrower by increasing the Agency Approved Loan Amount on the application screen. (This step cannot be accomplished until the 1D process in step 1 has processed overnight. This step should only be completed if increasing the obligation amount.)
3. Re-approve the application by inserting the Approval Date on the GLS Application Screen.
4. Go to the obligation request and input the required data. Then, click "**APPLY CHANGES**" and *Print* the obligation request screen. The obligation request screen you print should have a Request Status of "ENTERED." **DO NOT "SUBMIT"** these changes to PLAS. Annotate the new obligation date on the screen print. Make sure the date you annotate is prior to the date the lender closed the loan.
5. Send a copy of the revised obligation request screen printed in step 4 that includes the date annotated on the screen, with a request to process the obligation to the Guaranteed Loan Branch in St. Louis, Missouri as follows:
 - by fax to (314) 457-4279
 - or scan the completed document and email it to your Guaranteed Loan Branch technician in St. Louis for your state.

If you have questions, contact the Guaranteed Loan Branch at (314) 457-4192 or your Deputy Chief Financial Officer (DCFO) technician for your state.

In some situations, increasing the amount of the obligation during the current fiscal year does not require a date change because the lender has not yet closed the loan. In these cases, you can make the changes to the obligation, as listed in steps 1 through 4 above; however, click on the *Submit to PLAS* option instead of *Apply Changes*. Since the lender has not yet closed the loan, these obligations will still be dated prior to the date of the closing. This procedure applies to loans created in GLS without the assistance of the Guaranteed Underwriting System (GUS). For loans created in GUS during the current fiscal year **and** the amount of the obligation needs increased, follow the following procedures:

1. De-obligate the entire loan through the Guaranteed Loan System (GLS) Web screens by inserting zero (0) in the loan amount of the Obligation screen. Press the “Submit to PLAS” button. Next, select the radio button “Withdraw Application return Loan Amount to State Available funds” (This initiates a full 1D process in PLAS.)
2. From the GLS menu, select “Guaranteed Underwriting.”
3. At the GUS Home page, select “Existing Application.”
4. A “Loan List” will appear. Find the loan in GUS by utilizing any of the key loan filtering options. The Loan List displays loans for the past seven days. Modify the “Beginning Date” to find loans obligated greater than the seven days displayed.
5. Open the “USDA Administration” page.
6. At the bottom of the page, select “Reinstate Application.” This selection activates the “Release Back to Lender” button located to the left of “Reinstate Application.”
7. While the lender is correcting data, return to GLS and re-create a reservation in GLS.
8. Once the application is returned to the Agency with a final submission, the Agency will complete the USDA Administration page and select “Submit to GLS.”
9. Return to the “GLS GRH Request List” and retrieve the application.
- 10.
11. Go the “Obligation Request” page and input the required data. Select “Submit to PLAS.”

PRIOR FISCAL YEAR:

If there is a need to change the date of an obligation or increase the amount of an obligation with funds from a previous fiscal year, **DO NOT** update the obligation via the GLS Web system. All of these requests are to be submitted directly to the Guaranteed Loan Branch in St. Louis, Missouri as follows:

- by fax to (314) 457-4279
- or scan the completed document and email it to your Guaranteed Loan Branch technician in St. Louis for your state.

If you have questions, contact the Guaranteed Loan Branch at (314) 457-4192 or your DCFO technician for your state.

Each request should include a short explanation why the increase is necessary and an Obligation screen printed off the GLS Web system with the correct figures written on the screen.

All requests to increase the obligation amount for a GRH loan with prior fiscal year funds are subject to the availability of funds at the time of the request.

The Guaranteed Loan Branch will make the required obligation date correction and change in obligation amount.

PARTIAL AND FULL DE-OBLIGATION OF LOANS:

For loans obligated in GLS requiring a partial amount or the full amount of the loan to be de-obligated, the de-obligation can be accomplished using the GLS. If only a partial de-obligation of the SFHGLP loan is necessary, field staff can complete a partial de-obligation by decreasing the loan amount on the GLS obligation screen to the lower loan amount. The system will automatically initiate a partial 1D de-obligation. For full de-obligations, change the loan amount on the GLS obligation screen to zero (0). The system will automatically initiate a full 1D de-obligation. You will then have to indicate if the loan should be withdrawn or should not be withdrawn and returned to "Approved Status."

Note: De-obligations of less than ten dollars (\$10) must be processed like an increase in the obligation amount.

Questions pertaining to this AN can be directed to Debbie Terrell at 918.534.3254 or Dean Daetwyler at 202.690.0514 of the Single Family Housing Guaranteed Loan Division or the Guaranteed Loan Branch in St. Louis at (314) 457-4192.

RD AN No. 4413 (1980-D)
December 3, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Coordinators,
Area Managers and Specialists

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Use of Retirement Assets in the Risk Analysis

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify guidance regarding the use of retirement assets in the risk evaluation of loan applications for the Single Family Housing Guaranteed Loan Program (SFHGLP).

COMPARISON WITH PREVIOUS AN:

There is no previous AN issued on this subject.

EXPIRATION DATE:
December 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Liquid assets are not required to qualify the applicant for the SFHGLP. As part of the loan underwriting process, the value of liquid assets may be considered as a compensating factor. Assets consisting of cash, or cash equivalents, reduce risk and provide additional strength to loan files. Underwriters may choose to utilize borrower assets when assessing applicant risk. Liquid assets may be used for both manual and automated underwriting. If an underwriter considers liquid assets in assessing risk, they should be sure to verify and document the asset.

Many types of liquid assets may be considered in the loan application analysis. They include demand deposit accounts, saving accounts, certificates of deposit, money market accounts, mutual funds, marketable securities traded on public exchanges, or any asset that can be liquidated rapidly with a minimum or no loss of value. Liquid assets may be contrasted with assets that typically cannot be liquidated rapidly with a minimum or no loss of value.

Illiquid assets include real estate, antiques, automobiles, boats, and other assets which cannot be sold quickly without significant discounts.

Retirement accounts can be liquid, illiquid, or both. Verification documentation and special calculation instructions are necessary to correctly consider a retirement account asset. If an underwriter uses any assets, including retirement assets, when considering a loan application, they should verify and document that the asset exists as represented. Retirement accounts include Individual Retirement Accounts (IRAs), Roth IRAs, 401(k) accounts, Thrift Saving Plans, and other accounts whose purpose is to be accessed at or after retirement.

IMPLEMENTATION RESPONSIBILITIES:

- State Directors should ensure that lenders using a borrower's retirement account as a compensating factor in assessing credit risk do so as described below. This treatment is very similar to that applicable under Federal Housing Administration (FHA) guidelines (see Mortgagee Letter 2004-44) and to mortgage industry standards.
- To account for withdrawal penalties and taxes, utilize 60% of the vested amount of the account as the value of the retirement asset.
- Utilize retirement accounts as compensating factors and as cash reserves only if the account allows for withdrawals by the borrower(s). Retirement accounts that restrict withdrawals only in connection with the borrower's employment separation, retirement or death should not be considered.
- Documentation of retirement assets utilized to support the loan application should be retained and may include a recent depository or brokerage account statement.

State Offices having questions regarding this AN should contact Debbie Terrell at 918.534.3254 or debra.terrell@wdc.usda.gov or Joaquín Tremols at (202) 720-1452 or joaquin.tremols@wdc.usda.gov.

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Rural Development Managers, and
Community Development Managers

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program Requirements
Related to:
• New Construction
• Homes in Planned Unit Developments

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) clarifies:

1. Regulatory requirements dealing with lender loan file documentation requirements for newly constructed homes.
2. Regulatory requirements when the guaranteed loan is used to purchase a home in a Planned Unit Development.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4313 (1980-D) dated October 31, 2007.

EXPIRATION DATE:
December 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

Lender Responsibilities and Agency Responsibilities for New Construction

Single Family Housing Guaranteed Loan Program (SFHGLP) loans are originated by several thousand approved lenders working through the USDA Rural Development offices nationwide.

Questions often arise regarding roles and responsibilities, or specifically, what are “lender responsibilities” and what are “agency responsibilities” as they apply to new construction.

In general, the lender has the primary responsibility for all loan origination activities. The Agency has primary responsibility to review lenders’ actions and monitor participants’ compliance with program requirements.

The Agency should not assume the lender’s responsibilities, nor require the Lender to routinely submit certifications or documentation not specified in program regulations or not essential to the Agency’s review under the lender’s agreement (Form RD 1980-16). Similarly, the Lender should not request the Agency to perform its responsibilities.

The SFHGLP regulations recognize the trust the Agency places in approved lenders. The Agency will balance its monitoring responsibilities with the burden placed on Lenders to provide documentation.

The Agency will not require the lender to routinely submit documentation maintained in the lender’s file regarding new construction that is not required to be submitted by program regulations, such as:

- Copies of plans, drawings and specifications
- Certifications regarding the plans, drawings and specifications (Although lenders may voluntarily elect to use Form RD 1924-25, *Plan Certification*, this form is not a required form for the guaranteed program. The certification may be on the plans and drawings, a separate form, or on any document that conveys the necessary information.)
- Building permits
- Copies of new construction inspections
- Occupancy certificates
- Copies of the construction warranties.

However, the Agency has the option to request this information in appropriate situations such as when:

- The Agency is performing a processing review for a new Lender.
- The Agency is performing a periodic review of the Lender’s compliance with program regulations.
- The Agency believes that the Lender is not fulfilling the obligations of the Lender Agreement and/or program regulations.
- The Agency is reviewing a loss claim.

The two following charts were developed to guide Agency staff regarding:

- Building drawings, plans and specifications and the related documentation requirements.
- New construction inspections and the related documentation requirements.

NEW CONSTRUCTION BUILDING PLANS, SPECIFICATIONS, AND INSPECTIONS

Certified Plans and Specifications

RD Instruction 1980.340(b)(1)

The Lender's file must contain evidence that the plans and specifications comply with all applicable development standards* applicable to the new construction. Acceptable evidence includes:

1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 "Plan Certification" is an acceptable format, but may not be required by the Agency for guaranteed loans.

-OR-

2. Certificate of Occupancy issued by a local jurisdiction.**

-OR-

3. Building Permit (or equivalent) issued by local jurisdiction.**

The lender may accept certifications only from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

(1) Licensed architects,

(2) Professional engineers,

(3) Plan reviewers certified by a national model code organization,

(4) Local building officials authorized to review and approve building plans and specifications, or

(5) National codes organizations.

* Applicable Development Standard The current edition of any of the model building, plumbing, mechanical, and electrical codes listed in exhibit E of RD Instruction 1924-A are applicable to single family residential construction, or other similar codes adopted by the Agency for use in the State.

** If this method is used, the State Director must determine whether local communities or jurisdictions qualify to use this form of "acceptable evidence" under RD Instruction 1924-A, section 1924.5(f)(1)(iii)(C)(2).

Evidence of construction inspections.

RD Instruction 1980.341(b)(2)

The Lender's file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections, including those prescribed in RD Instruction 1980-D § 1980.341(b)(2) and a 1-year builder warranty plan acceptable to Rural Development, or;

2. Three construction inspections performed when:

- Footings and foundation are ready to be poured and prior to back-filling.
- Shell is complete, but plumbing, electrical and mechanical work is still exposed.
- Final inspection of completed work prior to occupancy.
- A 1-year insured builder warranty plan acceptable to Rural Development, or;

3. Final inspection and a 10-year insured builder warranty plan acceptable to Rural Development.

Dwellings Served by a Homeowners Association (HOA)

RD Instruction 1980-D, section 1980.311(c) states, in part:

- A dwelling served by a homeowners association (HOA) may be accepted when the project has been approved by HUD, Veterans Affairs (VA), Fannie Mae, or Freddie Mac.

Dwellings served by a homeowners association typically are either:

- A home (attached or detached) in a Planned Unit Development (PUD), or;
- A unit in a condominium project.

On January 22, 2003, the Department of Housing and Urban Development (HUD) issued a mortgagee letter 2003-02, announcing the elimination of PUD approval requirements. Based on Federal Housing Administration's (FHA) extensive experience with PUDs, FHA no longer requires approval of a PUD as a precondition for placing FHA mortgagee insurance on a dwelling located in the development. Also, FHA no longer maintains a list of approved PUDs.

Lenders participating in the Guaranteed Loan program, therefore, may rely on FHA's general acceptance of PUDs for compliance with the requirement in RD Instruction 1980-D, section 1980.311(c) when the subject dwelling is in a PUD. All other appraisal and property requirements still apply.

Condominium projects and other non-PUD projects served by an HOA must still be approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac in order to meet the requirements of RD Instruction 1980-D, section 1980.311(c).

Please direct questions concerning this Administrative Notice to David Chaput or Joaquín Tremols at (202) 720-1452. Their respective email addresses are david.chaput@wdc.usda.gov and joaquin.tremols@wdc.usda.gov.

TO: Rural Development State Directors

ATTN: Rural Housing Program Directors
Rural Development Area and Local Offices
State Architects, Engineers, Construction Analysts and
Inspectors

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Rural Housing Service

SUBJECT: The affect of the Energy Independence and Security Act of
2007 on Manufactured Housing

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to inform the Rural Development staff that Rural Housing Service now complies with the Energy Independence and Security Act of 2007 (Act) to govern the energy requirements for all Single Family Housing Loan and Grant programs related to new construction projects. The Act carries standards for the efficiency of equipment and appliances installed in the homes.

The Act does not yet affect the requirements for construction of manufactured homes. For new manufactured homes, Currently, Rural Development follows the requirements of the Department of Housing and Urban Development's Federal Manufactured Home Construction and Safety Standards (FMHCSS), commonly called the "HUD Code".

This AN supplements and clarifies the requirements in RD Instruction 1924-A, Exhibit D, the Single Family Housing HB-1-3550, DLOS Field Office Handbook.

COMPARISON WITH PREVIOUS AN:

This AN updates AN No. 4322 (1924-A) dated December 18, 2007, which expires on December 31, 2008.

EXPIRATION DATE:
December 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1924-A

BACKGROUND:

The Energy Independence and Security Act of 2007 establishes the 2006 International Energy Conservation Code (IECC-06) as the new standard for energy conservation requirements on new residential construction. Rural Housing Service has adopted the requirements where applicable. Single Family Housing programs fall under this Act pursuant to the Cranston-Gonzalez National Affordable Housing Act, 42 U.S.C., section 12709, (a) (1) (B) which is modified by the Act.

The construction standards, set forth by the FMHCSS for manufactured homes, have not changed. New manufactured homes built to the FMHCSS are provided with a Comfort Heating and Cooling Certificate. This Certificate (which may be combined with the Data Plate) is affixed in a permanent manner near the main electrical panel or other readily accessible and visible location inside the unit. The Certificate specifies the FMHCSS Uo Value Zone that the manufactured home complies with (see the circled area on Attachment A). This will be either a Uo Value Zone 1, 2, or 3. Attachment A is an example of a Data Plate containing the Comfort Heating and Cooling Certificate. The U/O Value Zone Map on the Certificate does not apply to Rural Development. Rural Development will continue to use Attachment B.

IMPLEMENTATION RESPONSIBILITIES:

For new construction of single family homes, other than manufactured homes, the thermal standards are determined by the IECC-06.

For manufactured homes, Attachment B to this AN lists the FMHCSS Uo value zones that correspond to the Rural Development climatic zones for each State by county. These are the FMHCSS Uo Value Zones acceptable to Rural Development for each State or county within a State. Rural Development field offices will ensure that existing and potential manufactured housing dealer-contractors receive Attachment B.

During the initial meeting with the applicant, Rural Development staff will indicate which FMHCSS Uo Value Zone is acceptable to Rural Development for the county in which the home will be installed. When the manufactured home is delivered to the site, Rural Development will verify that the unit is acceptable by inspecting the Comfort Heating and Cooling Certificate.

Please direct all questions pertaining to this AN to William Downs, Architect, at (202) 720-1499, email: william.downs@wdc.usda.gov of the Rural Housing Service Program Support Staff.

Attachments: A & B

Attachment A

Manufacturer Address _____

Plant Number _____

Date of Manufacture _____ HUD Label No.(s) _____

Manufacturer's Serial Number and Model Unit Designation _____

Design Approval by (D.A.P.I.A.) _____

This manufactured home is designed to comply with the federal manufactured home construction and safety standards in force at time of manufacture.
(For additional information, consult owner's manual.)

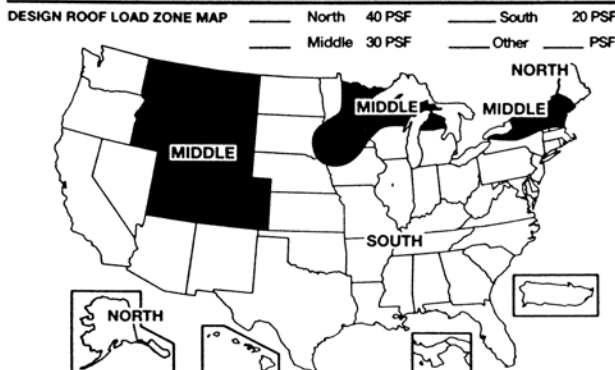
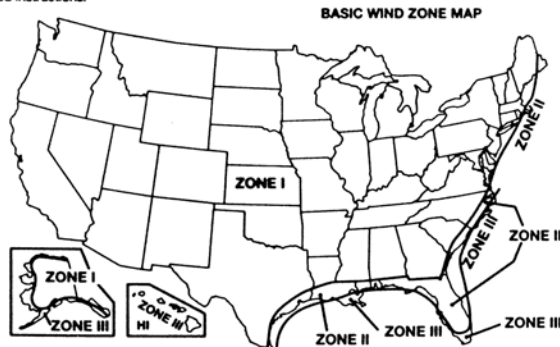
The factory installed equipment includes:

Equipment	Manufacturer	Model Designation
For heating	_____	_____
For air cooling	_____	_____
For cooking	_____	_____
Refrigerator	_____	_____
Water Heater	_____	_____
Washer	_____	_____
Clothes Dryer	_____	_____
Dishwasher	_____	_____
Garbage Disposal	_____	_____
Fireplace	_____	_____

HOME CONSTRUCTED FOR ☐ Zone I ☐ Zone II ☐ Zone III

This home has not been designed for the higher wind pressure and anchoring provisions required for ocean/coastal areas and should not be located within 1500' of the coastline in Wind Zones II and III, unless the home and its anchoring and foundation system have been designed for the increased requirements specified for Exposure D in ANSI/ASCE 7-88.

This home has _____ has not _____ been equipped with storm shutters or other protective coverings for windows and exterior door openings. For homes designed to be located in Wind Zones II and III, which have not been provided with shutters or equivalent covering devices, it is strongly recommended that the home be made ready to be equipped with these devices in accordance with the method recommended in manufacturers printed instructions.



COMFORT HEATING

This manufactured home has been thermally insulated to conform with the requirements of the federal manufactured home construction and safety standards for all locations within U/O value zone _____ (See map at bottom).
Heating equipment manufacturer and model (See list at left).
The above heating equipment has the capacity to maintain an average 70° F temperature in this home at outdoor temperatures of _____°F.
To maximize furnace operating economy, and to conserve energy, it is recommended that this home be installed where the outdoor winter design temperature (97 1/2%) is not higher than _____ degrees Fahrenheit.
The above information has been calculated assuming a maximum wind velocity of 15 mph at standard atmospheric pressure.

COMFORT COOLING

☐ Air conditioner provided at factory (Alternate I)

Air conditioner manufacturer and model (see list at left).

Certified capacity _____ B.T.U./hour in accordance with the appropriate air conditioning and refrigeration institute standards.
The central air conditioning system provided in this home has been sized assuming an orientation of the front (hitch end) of the home facing _____. On this basis the system is designed to maintain an indoor temperature of 75° F when outdoor temperatures are _____°F dry bulb and _____°F wet bulb.

The temperature to which this home can be cooled will change depending upon the amount of exposure of the windows of this home to the sun's radiant heat. Therefore, the home's heat gains will vary dependent upon its orientation to the sun and any permanent shading provided. Information concerning the calculation of cooling loads at various locations, window exposures and shadings are provided in Chapter 22 of the 1989 edition of the ASHRAE Handbook of Fundamentals.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this home.

☐ Air conditioner not provided at factory (Alternate II)

The air distribution system of this home is suitable for the installation of central air conditioning.

The supply air distribution system installed in this home is sized for a manufactured home central air conditioning system of up to _____ B.T.U./hr. rated capacity which are certified in accordance with the appropriate air conditioning and refrigeration institute standards, when the air circulators of such air conditioners are rated at 0.3 inch water column static pressure or greater for the cooling air delivered to the manufactured home supply air duct system.
Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this manufactured home.

☐ Air conditioning not recommended (Alternate III)

The air distribution system of this home has not been designed in anticipation of its use with a central air conditioning system.

To determine the required capacity of equipment to cool a home efficiently and economically, a cooling load (heat gain) calculation is required. The cooling load is dependent on the orientation, location and the structure of the home. Central air conditioners operate most efficiently and provide the greatest comfort when their capacity closely approximates the calculated cooling load. Each home's air conditioner should be sized in accordance with Chapter 22 of the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE) Handbook of Fundamentals 1989 edition, once the location and orientation are known.

INFORMATION PROVIDED BY THE MANUFACTURER NECESSARY TO CALCULATE SENSIBLE HEAT GAIN

Walls (without windows and doors) _____ °F

Ceilings and roofs of light color _____ °F

Ceilings and roofs of dark color _____ °F

Floors _____ °F

Air ducts in floor _____ °F

Air ducts in ceiling _____ °F

Air ducts installed outside the home _____ °F

The following are the duct areas in this home:

Air ducts in floor _____ sq ft

Air ducts in ceiling _____ sq ft

Air ducts outside the home _____ sq ft



FD-637 (Rev. 0-8-81) (REV. 10/91)

ATTACHMENT B

RURAL DEVELOPMENT THERMAL REQUIREMENTS FOR MANUFACTURED HOMES

BACKGROUND: The minimum thermal requirement for new manufactured homes acceptable to Rural Development is the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone(s) indicated on the Comfort Heating and Cooling Certificate for the following States:

NOTE: For a FMHCSS Uo Value Zone 1 or higher, higher means a FMHCSS Uo Value Zone 2 or 3. For a FMHCSS Uo Value Zone 2 or higher, higher means a FMHCSS Uo Value Zone 3.

ALABAMA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

ALASKA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

ARIZONA

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties:

Cochise	Greenlee	Mohave	Santa Cruz
Gila	La Paz	Pima	Yuma
Graham	Maricopa	Pinal	

FMHCSS Uo Value Zone 3 is acceptable for all other counties.

ARKANSAS

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

CALIFORNIA

FMHCSS Uo Value Zone 3 is acceptable for the following counties:

Alpine	Modoc	Nevada	Sierra
Lassen	Mono	Plumas	Siskiyou

FMHCSS Uo Value Zone 2 or higher is acceptable for all other counties.

COLORADO

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

DELAWARE / MARYLAND

FMHCSS Uo Value Zone 3 is acceptable for all counties in both States.

FLORIDA / VIRGIN ISLANDS

FMHCSS Uo Value Zone 1 or higher is acceptable for the following Florida counties and the Virgin Islands:

Brevard	Hardee	Levy	Palm Beach
Broward	Hendry	Manatee	Pasco
Charlotte	Hernando	Marion	Pinellas
Citrus	Highlands	Martin	Polk
Collier	Hillborough	Monroe	Sarasota
Dade	Indian River	Okeechobee	Seminole
DeSoto	Lake	Orange	St Lucia
Glades	Lee	Osceola	Sumter
			Vousia

FMHCSS Uo Value Zone 2 or higher is acceptable for all other counties.

GEORGIA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

HAWAII

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

IDAHO

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

ILLINOIS

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

INDIANA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

IOWA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

KANSAS

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties:

Barber	Cowley	Harper	Neosho
Chautauqua	Crawford	Labette	Sumner
Cherokee	Elk	Montgomery	Wilson
Comanche			

FMHCSS Uo Value Zone 3 is acceptable for all other counties.

KENTUCKY

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

LOUISIANA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

MAINE

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

MASSACHUSETTS / RHODE ISLAND / CONNECTICUT

FMHCSS Uo Value Zone 3 is acceptable for all counties in the three States.

MICHIGAN

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

MINNESOTA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

MISSISSIPPI

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

MISSOURI

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties:

Barry	Jasper	Newton	Scott
Butler	McDonald	Oregon	Stoddard
Cape Girardeau	Mississippi	Ozark	Stone
Dunklin	New Madrid	Pemiscot	Taney
Howell		Ripley	

FMHCSS Uo Value Zone 3 is acceptable for all other counties.

MONTANA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEBRASKA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEVADA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEW JERSEY

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEW MEXICO

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties:

Bernalillo	Eddy	Lea	Quay
Chaves	Grant	Lincoln	Roosevelt
Curry	Guadalupe	Luna	Sierra
De Baca	Hidalgo	Otero	Socorro
Dona Ana			

FMHCSS Uo Value Zone 3 is acceptable for all other counties.

NEW YORK

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NORTH CAROLINA

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

NORTH DAKOTA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

OHIO

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

OKLAHOMA

FMHCSS Uo Value Zone 3 is acceptable for the following counties:

Beaver	Cimarron	Texas
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FMHCSS Uo Value Zone 2 or higher is acceptable for all other counties.

OREGON

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

PENNSYLVANIA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

PUERTO RICO

FMHCSS Uo Value Zone 1 or higher is acceptable for all of Puerto Rico.

SOUTH CAROLINA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

SOUTH DAKOTA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

TENNESSEE

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

TEXAS

FMHCSS Uo Value Zone 1 or higher is acceptable for the following counties:

Cameron	Kenedy	Starr	Zapata
Hidalgo	Kleberg	Willacy	

FMHCSS Uo Value Zone 2 or higher is acceptable for all other counties.

UTAH

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

VERMONT / NEW HAMPSHIRE

FMHCSS Uo Value Zone 3 is acceptable for all counties in both States.

VIRGINIA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WASHINGTON

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WEST VIRGINIA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WISCONSIN

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WYOMING

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.